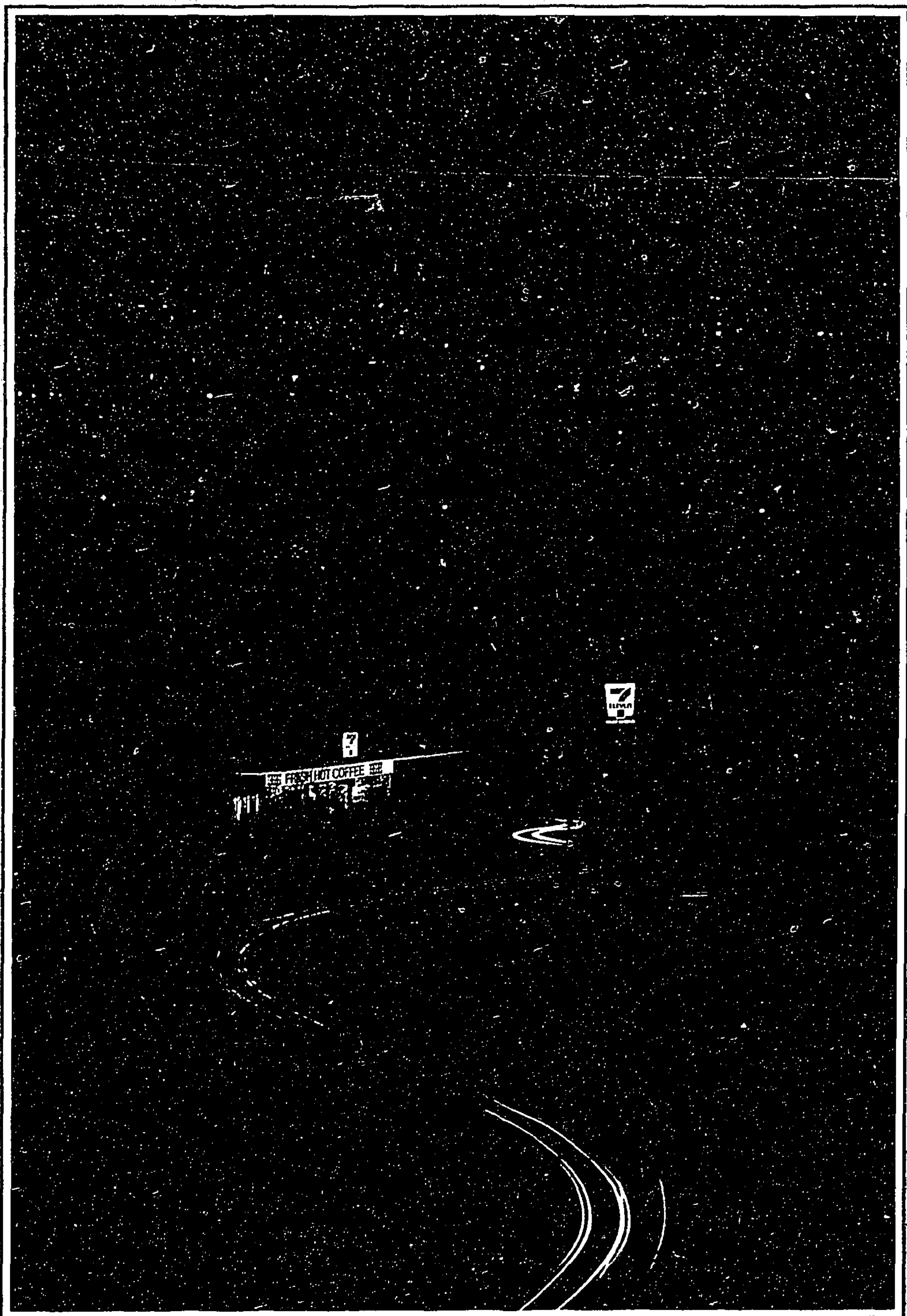
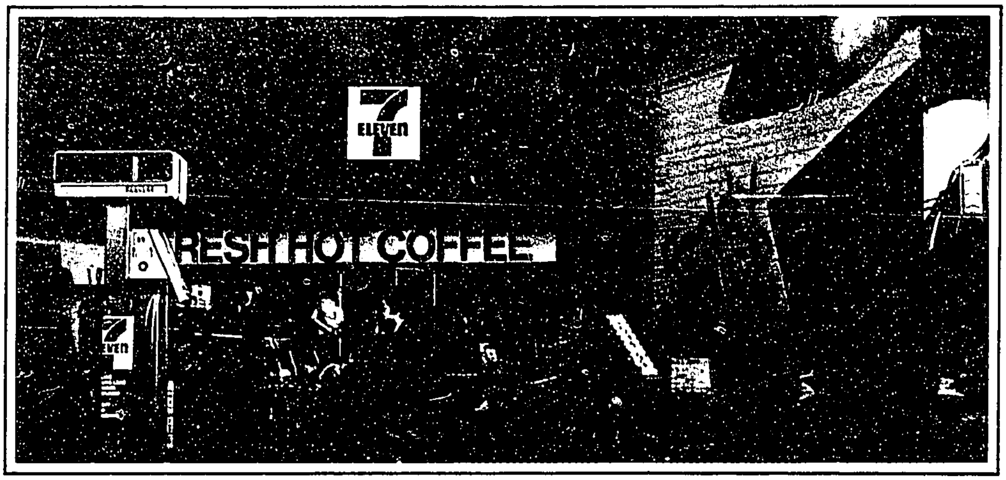
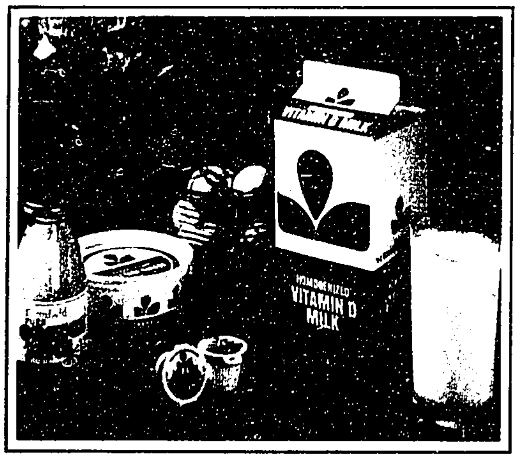
THE SOUTHLAND CORPORATION
1980 • ANNUAL • REPORT




ELEVEN
RESH HOT COFFEE


Chunky Style
Burrito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southland
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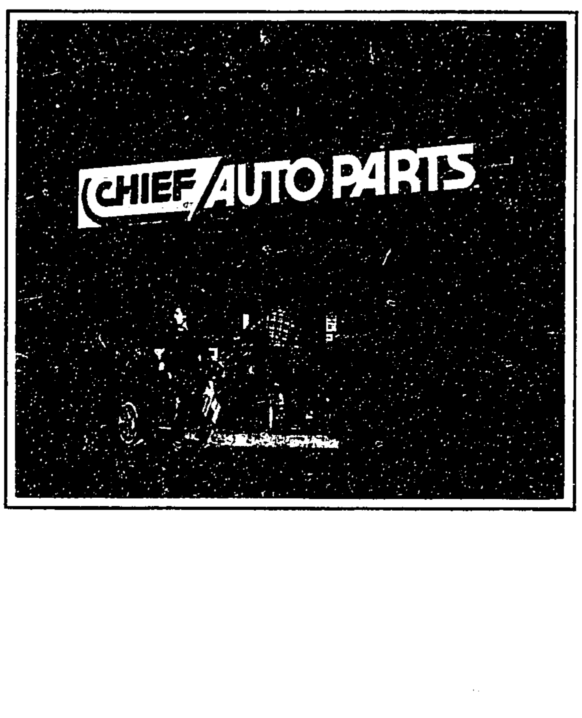
CHIEF AUTO PARTS

THE SOUTHLAND CORPORATION,

originator of the convenience store concept, is one of the largest retail companies in the United States. Its activities are grouped into three business segments.

THE STORES GROUP is the world's largest operator and franchisor of convenience stores with 6,895 7-ELEVEN stores in 42 states, the District of Columbia, and five provinces of Canada. Other retail operations include 100 Gristede's and Charles & Co. food stores and sandwich shops in metropolitan New York, 37 Super Seven multi-pump self-serve gasoline outlets, 389 R S McColl confectionery, tobacco, and news (CTN) stores and 16 7-ELEVEN units in the United Kingdom, as well as an equity interest in 25 Näröppet and seven 7-ELEVEN stores in Sweden and 10 Super Siete convenience stores in Mexico. An additional 377 7-ELEVEN stores are operated by area licensees in the United States, 1,015 in Japan, 29 in Australia, 28 in Taiwan, and 13 in Canada. The Group also includes four merchandise distribution centers and six fast food production facilities serving 7-ELEVEN and other customers.

THE DAIRIES GROUP is one of the nation's largest processors of dairy products, which are marketed under 11 well-known regional brand names in 29 states and the District of Columbia.

THE SPECIAL OPERATIONS GROUP includes Chief, which operates 216 retail auto parts stores, as well as the Chemical, Reddy Ice, and Tidel Systems Divisions.

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To Our Shareholders:

Southland began the decade of the '80s with an excellent year, even though it was a very difficult period for many businesses as the nation was burdened by double-digit inflation, unprecedented interest rates, high unemployment, and reduced consumer confidence.

For the first time in the Company's history. revenues exceeded one billion dollars in each of the four quarters, reaching a record $4.78 billion, up 23.4%. This outstanding performance resulted primarily from the underlying strengths of convenience store retailing, as 7-Eleven sales alone were almost $4 billion, 23.7% ahead of 1979. Although the increase in merchandise sales substantially exceeded the rate of inflation, self-serve gasoline, the leading product category in the 7-Eleven mix, contributed almost half of the sales gain. The Dairies Group, benefiting from generally stable market conditions, also experienced the best year in its history, as sales rose 14.2% to $358.5 million, while a 33.3% increase by the Chief Auto Parts Division led the Special Operations Group to an 18.8% gain.

Net earnings were a record $77.7 million, up 15.1%, compared with $67.5 million before the cumulative investment tax credits (ITC) in 1979. Although programs initiated late in 1979 to control expenses have been effective, 1980 earnings were adversely affected by start-up costs at the newest Distribution Center, expenses relating to the expansion program of Chief Auto Parts, and a loss at Tidel Systems due to production and marketing delays.

Primary earnings per share were $3.29, a gain of 8.6% from 1979's $3.03 before cumulative ITC, while diluted earnings were $3.19, up 8.9% from $2.93. Per-share comparisons reflect the dilutive effect of two million additional shares of stock sold in August, 1979.

The accounting change to the last-in, first-out (LIFO) method of determining the cost of approximately 80% of all inventories resulted in a charge of $19.8 million against 1980 pretax earnings, compared with $18.8 million the prior year. The change to LIFO, however, has enabled the Company to save more than $17 million in taxes for the two years.

In April, the annual cash dividend rate was raised 14.3% to 96¢ a share, the ninth increase in the past 10 years, and a 3% stock dividend was distributed for the 15th consecutive year. The Company continues to encourage shareholders to avail themselves of the benefits of the Automatic Stock Purchase Plan, and we are extremely pleased that 25% now reinvest their cash dividends in additional shares.

The Company invested $114.5 million for property, plant, and equipment, compared with an all-time high of $223.0 million in 1979. This planned reduction in capital expenditures was due to economic conditions, high interest rates, and the establishment of more exacting 7-Eleven store site selection standards designed to improve the return on investment. A total of 371 convenience stores were opened, down from 666 in 1979, while 281 were closed, compared with 460 the previous year. At year-end, there were 7,248 retail outlets in operation, including 6,895 7-Eleven stores, with another 128 under construction.

In 1980, we opened 53 Chief Auto Parts stores and closed eight, for a total of 216, almost doubling the Division's size in just two years. Although this rapid expansion has resulted in substantial start-up costs, we are optimistic about Chief's future growth and profitability and its potential to become the leader in the retail auto replacement parts industry.

The viability of the 7-Eleven concept in other countries is providing many opportunities for both area licensees and Southland. Only six years after opening the first 7-Eleven, our highly successful licensee, Seven-Eleven Japan Co., Ltd., celebrated in November the opening of its 1,000th store. The initial 7-Eleven stores in Taiwan and Sweden were also opened, and the first in Hong Kong is scheduled to begin operation in early 1981.

The "Southland Family" remains actively involved in the community projects of thousands of neighborhoods nationwide. Last year, the Company was joined by the National Association of Convenience Stores in raising $4.5 million for the Muscular Dystrophy Association. The Dairies Group, which in 1978 became the first national corporate sponsor of the March of Dimes, is continuing its effort on behalf of the "Mother's March on Birth Defects." More recently, 7-Eleven became a national sponsor of that organization's first "WalkAmerica."

We are pleased that Southland has become a major corporate sponsor of the 1984 Olympic Games in Los Angeles and is funding the Olympic-class velodrome for cycling events. The permanent, open-air facility will be constructed on the California State University Dominguez Hills campus near Los Angeles. In addition, we are delighted to be a sponsor of the United States Olympic Committee's

program to train American athletes for the Games. During the next four years, 7-Eleven stores will serve as Olympic information centers, and promotions and advertising featuring the Olympic theme will become an important element of Southland's marketing programs.

In keeping with our ongoing review of the Company's management structure, late last year we elevated two Vice Presidents to Senior Vice President and promoted five 7-Eleven Regional Managers and the International Division Manager to Vice President. In addition, a new Dairies Group Vice President was elected, six corporate staff department managers were elevated to Vice President, and a new Treasurer was elected.

We are grateful to you for your confidence and support, and to our employees, franchisees, suppliers, and customers for their contributions, in making 1980 a successful year. Looking ahead, we expect continued improvement in the nation's economy and anticipate that 1981 will be another excellent year for Southland.

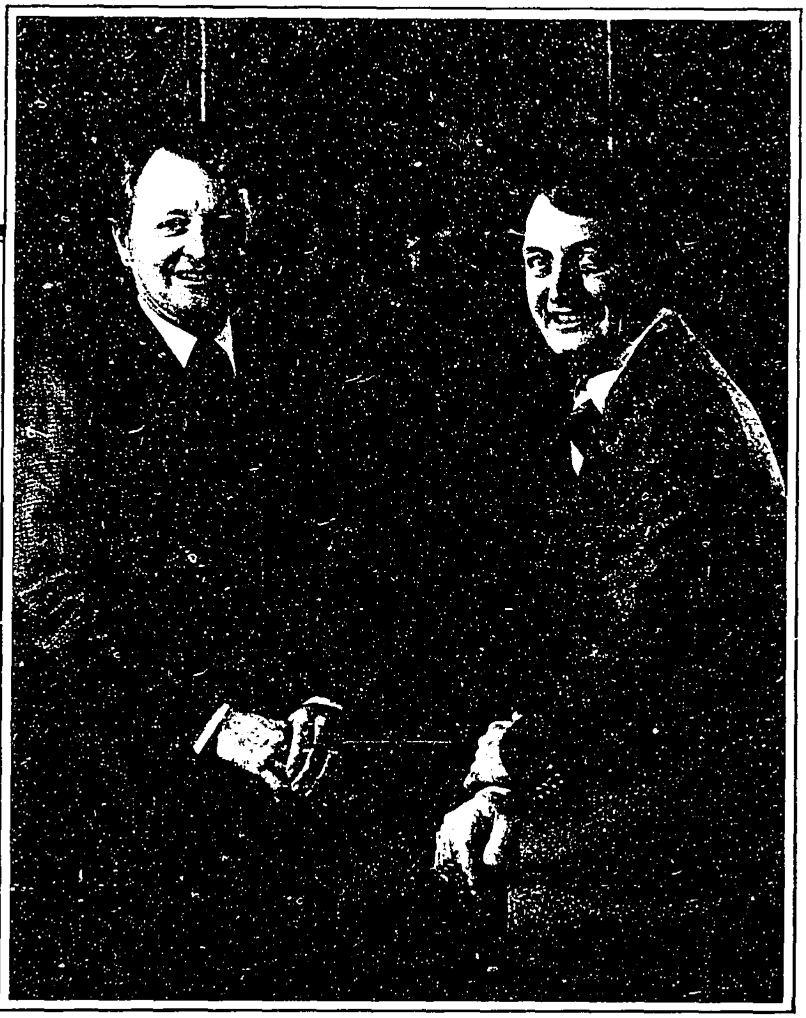
John P. Thompson

JOHN P. THOMPSON
CHAIRMAN

Jere W. Thompson

JERE W. THOMPSON
PRESIDENT

March 9, 1981



JOHN P. THOMPSON JERE W. THOMPSON

FINANCIAL HIGHLIGHTS

(Dollars in thousands except per share data) — Year Ended December 31

For the Year	1980	1979	% Change
Total Revenues	**$4,782,605**	$3,876,059	23.4
Net Earnings	**77,672**	83,141*	(6.6)
Primary Earnings Per Share**	**3.29**	3.73*	(11.8)
Diluted Earnings Per Share	**3.19**	3.61*	(11.6)
Cash Dividends	**21,511**	17,382	23.8
Return on Beginning Shareholders' Equity	**15.6%**	22.2%	
At Year-End			
Working Capital	**191,756**	161,657	18.6
Current Ratio	**1.50**	1.53	
Long-Term Debt	**312,535**	326,893	(4.4)
Shareholders' Equity	**554,209**	497,605	11.4
Book Value Per Share**	**23.44**	22.34	4.9
Annual Dividend Rate Per Share	**.96**	.84	14.3
Average Shares Outstanding (000's)	**23,640**	22,274	6.1
Number of Shareholders	**8,429**	8,708	(3.2)
Number of Employees	**44,600**	44,300	0.7

*Net earnings include $15.7 million for cumulative effect of accounting change for investment tax credits. **Based on average number of shares outstanding during the period after adjusting for all stock dividends.

S T O R E S • G R O U P

(Millions)	1976	1977	1978	1979	1980	5 Year Compound Growth
Sales	$1,854.9	$2,267.8	$2,784.0	$3,453.0	**$4,294.1**	22.5%
Operating Profit	92.3	115.7	141.2	145.8	**176.4**	16.9

Stores Group sales increased $841 million to $4.29 billion, up 24.4%, and represented 90% of Company sales.

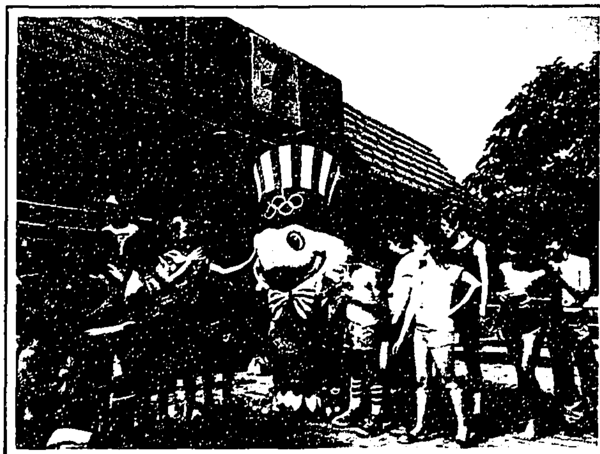
7-ELEVEN sales alone exceeded a billion dollars for the first time in a single three-month period, reaching that level in each of the last three quarters. Total convenience store sales were $3.97 billion, up 23.7%, compared with last year's $3.21 billion, as customers responded in record numbers to prime-time network television advertising, competitive pricing of selected items, and stepped-up merchandising and promotional programs. Although almost half of the gain resulted from increased demand for gasoline, merchandise sales in established stores continued strong throughout the year, substantially exceeding the rate of inflation.

A total of 6,895 **7-ELEVEN** stores were open at year-end, including 4,235 Company operated and 2,660 franchised, in 42 states, the District of Columbia, and five provinces of Canada. During the year, 371 units were opened, compared with 666 in 1979. Fewer stores were added as the Company realigned its store expansion program in light of general economic conditions, high interest rates, a significant reduction in residential construction, and more exacting site selection standards designed to improve return on investment. A total of 281 stores were closed — the lowest level in four years — because of population shifts, traffic pattern changes, lease expirations, or relocations of older units to newly available and more desirable sites.

Customers completed almost two billion transactions at "their" friendly **7-ELEVEN** store last year in response to the convenience of around-the-clock shopping, accessible locations, and "the right product at the right time."

Approximately 95% of all **7-ELEVEN** stores are open longer than the traditional 7 a.m. to 11 p.m., including 5,976 which never close. Over 70% of customers are male, 22% shop the late night hours between 11 p.m. and 7 a.m., and slightly more than half choose a store less than a mile from their home or place of business.

Customers average more than four trips per week, spend an estimated $2.08 per visit, and choose from a selection of more than 3,000 high-quality, name-brand products. About one in every three customers who purchase gasoline also buy other items, such as cigarettes, soft drinks, candy, or snacks.



7-ELEVEN promotions featuring Sam the Eagle, official mascot of the 1984 Olympic Games in Los Angeles, will be an important part of Southland's Olympic sponsorship activities.

The quick, friendly service at 7-ELEVEN is appreciated by people of all ages, from school children through senior citizens. Over half of 7-ELEVEN customers are in the 25-54 age group, and this segment of the population, which numbers approximately 85 million, will increase by more than 18 million in the coming decade.

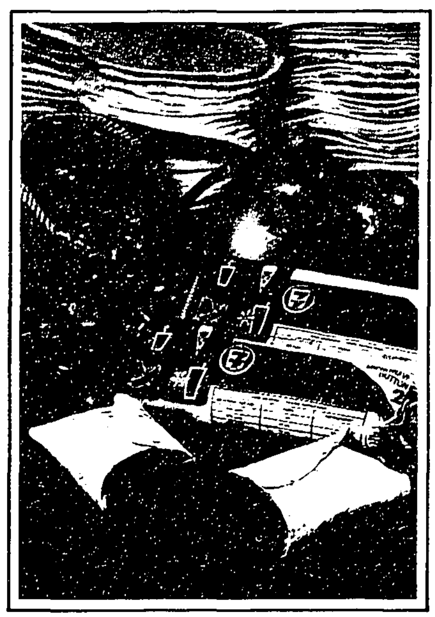
The strong trend in gasoline retailing toward more self-serve and less brand loyalty has created an opportunity for 7-ELEVEN to provide this popular product to an ever-increasing number of customers. Last year, gasoline represented 23.0% of total convenience store sales, compared with 17.2% in 1979. By year-end, gasoline was available at 2,246 7-ELEVEN locations, an increase of 139 over the prior year.

Early in 1980, limited gasoline supplies held down volume, while profit margins increased. After gasoline became more readily available in March, volume steadily increased throughout the remainder of the year, and with substantial price increases due to escalating crude oil costs, sales were up 60%. Although the cents per gallon mark-up declined from 1979, a 17% increase in volume to almost 800 million gallons resulted in a 12% gain in gross profit dollars.

Southland also operates 37 Super Seven multi-pump stations located principally on the West Coast. Sales of these high-volume units, which exceeded 60 million gallons last year, are not included in 7-ELEVEN gasoline revenues.

Network television commercials, nationally coordinated radio "spots," and extensive newspaper advertising successfully promoted 7-ELEVEN fast foods and other products during the year. Five major campaigns conducted in 1980 began with a three-month national radio promotion for breakfast products, including freshly brewed coffee and Danish pastry, "Egg Hamlette," and the new "Sausage and Egg with Cheese" sandwich. Network television commercials featuring "Burritos" and "Ham and Cheese" sandwiches showed lunchtime shoppers that 7-ELEVEN has "What You Want, When You Want It." Summer thematic commercials promoting fountain soft drinks, canned and bottled beverages, "Big Wheel" ice cream novelties, "Reddy Ice," and other refreshingly cold products showed that, at 7-ELEVEN, "Summertime Is Our Coldest Time Of Year." Advertising on weekend cartoon programming was scheduled for the first time and successfully promoted a longtime favorite, "Slurpee," the semi-frozen carbonated drink.

French bread pizzas, sandwiches, and burritos are popular selections for hungry 7-ELEVEN customers.



Ice cold fountain drinks in a variety of flavors are year-round favorites at 7-ELEVEN

As the 7-ELEVEN product line changes with the times, and customer count and sales volume continue to reach new highs each year, the positions of store manager and franchisee become more demanding.

The successful "Certified Store Manager" program, introduced in 1979, is designed to train managers to assume greater responsibility and increase their professionalism through skills development. The program includes three days of classroom instruction in general management principles, merchandising, inventory control, security, and administrative procedures, followed by an extensive in-store training and evaluation period. During the year, 3,356 managers and assistant managers participated in the classroom training, while 1,651 completed certification requirements. At the present time, 2,151, or 51% of all store managers, have been certified and are qualified for a special compensation plan which recognizes their accomplishment.

New franchisees — often husband and wife teams — also receive thorough training in 7-ELEVEN store management. During an initial 10-day period in a local training store, they learn the basic requirements of convenience store operation, including customer service, record keeping, ordering and receiving merchandise, security, store maintenance, and general business principles. Managerial techniques, as well as inventory and cash control, are taught in a week-long program at two Regional Training Centers. This training is followed by an "In-Store Skills Development Program" through which the franchisees' ability to use these skills in their own stores is verified. During 1980, 724 new franchisees, representing 514 stores, completed all three phases of the training program.

Gristede's, which serves the greater New York area, recorded good sales growth for the year. The Division's 100 stores specialize in premium quality groceries, meats, and fresh produce, with many providing unusual customer conveniences, such as telephone ordering, home delivery, and charge accounts. The 24 Charles & Co. sandwich shops and gourmet stores offer

Choice produce, meats, and gourmet items, as well as special customer services, have made Gristede's a household name in the greater New York area.

a wide range of tempting products from made-to-order sandwiches and delicatessen items to specialty foods and gift-packaged delicacies.

Southland, successfully responding to the rapidly growing "food away from home" market, has developed a highly flexible fast foods program built around sandwiches and other convenience foods which customers can easily heat in microwave ovens located in 7-ELEVEN stores.

The Fast Foods Division produces approximately 30 varieties of sandwiches under the 7-ELEVEN and Landshire labels at its Food Centers located at each of the four Regional Distribution Centers, as well as at plants in Salt Lake City and St. Louis. More than a million sandwiches per week, either fresh or flash-frozen, are distributed nationwide to 7-ELEVEN stores, other retailers, and institutional customers.

In addition to sandwiches, a selection of Mexican-style 7-ELEVEN burritos was introduced nationwide in late 1979. In response to their increasing popularity, annual production capacity at the Salt Lake City facility has been expanded to more than 50 million units. French bread pizza, a highly successful new product of the Champaign, Illinois, Food Center, was also introduced last summer.

While producing in excess of 100 million sandwiches, burritos, and French bread pizzas last year, the Centers also processed more than 1.4 million gallons of flavored syrups for the popular "Slurpee" drink.

Regional Distribution Centers, located in Florida, Illinois, Texas, and Virginia, serve 7-ELEVEN and other customers in 33 states, including 4,642, or 67%, of the convenience stores. Total sales were $651.3 million, up 33.4%, with outside sales increasing to $72.8 million from $29.2 million in 1979.

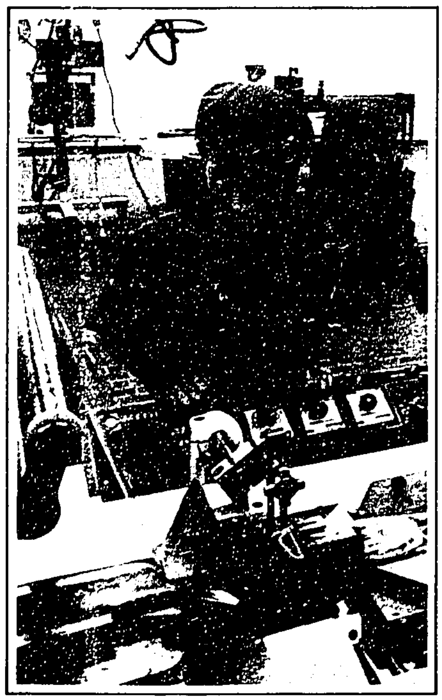
Because of their size, 7-ELEVEN stores depend upon frequent deliveries of small amounts of merchandise to maintain high in-stock positions. The Centers, which achieved a 99% order fill rate for the seventh consecutive year, have developed a highly sophisticated merchandise distribution system which enables the stores to order pre-priced merchandise in less than case lots and

Percent Convenience Store Sales (by Principal Product Category)

	1980	**1979**	**1978**	**1977**	**1976**
Gasoline	**23.0%**	17.2%	13.4%	9.8%	6.8%
Groceries	**12.4**	12.6	13.4	14.0	14.6
Tobacco Products	**12.3**	12.9	12.9	14.2	14.7
Beer/Wine	**11.7**	12.4	12.9	13.7	14.4
Soft Drinks	**10.1**	10.3	10.9	11.0	10.7
Non-Foods	**8.0**	8.7	9.4	9.9	10.2
Dairy Products	**6.7**	8.4	8.9	9.3	9.6
Other Food Items	**5.6**	6.2	5.5	4.7	4.7
Candy	**4.0**	4.3	4 7	5.0	5.4
Baked Goods	**3.4**	3.8	4.6	5.0	5.3
Health/Beauty Aids	**2.8**	3.2	3.4	3.4	3.6
Total	**100.0%**	100.0%	100.0%	100.0%	100.0%

The Company does not record sales by product lines but estimates the percentage of convenience store sales by principal product category based upon total store purchases.

The Food Centers produce a wide assortment of sandwiches sold nationwide.



Attractive refrigerated displays provide customer convenience and increase sales.

thereby improve inventory turnover, stock fresher merchandise, and realize higher sales and profits from available selling space. They also provide greater flexibility for the stores to change the product assortment in response to customer preferences and seasonal demands, undertake promotional programs, and introduce new products.

The success of the Centers in serving **7-ELEVEn** comes from a distribution process which is almost wholly controlled by computer. The cycle begins at the stores, where computer-generated order lists are completed by store personnel. The lists, customized for each store's special merchandise needs, are gathered at **7-ELEVEn** district offices and transmitted through terminals to the computer center in Dallas. The information is then relayed by computer to the appropriate Center, where the orders are "picked," assembled, and loaded by delivery sequence into custom-built trucks which have separate compartments for dry, chilled, and frozen merchandise. In addition, the computer schedules and routes each vehicle to achieve maximum time and energy savings.

The Champaign Center, which opened in late 1979, served 873 **7-ELEVEn** stores at year-end, 321 more than the prior year, and almost 400 outside customers. Although the Center was not profitable in 1980, the potential for increased sales to **7-ELEVEn** and other customers is encouraging, and the operation is expected to reach a break-even position near year-end.

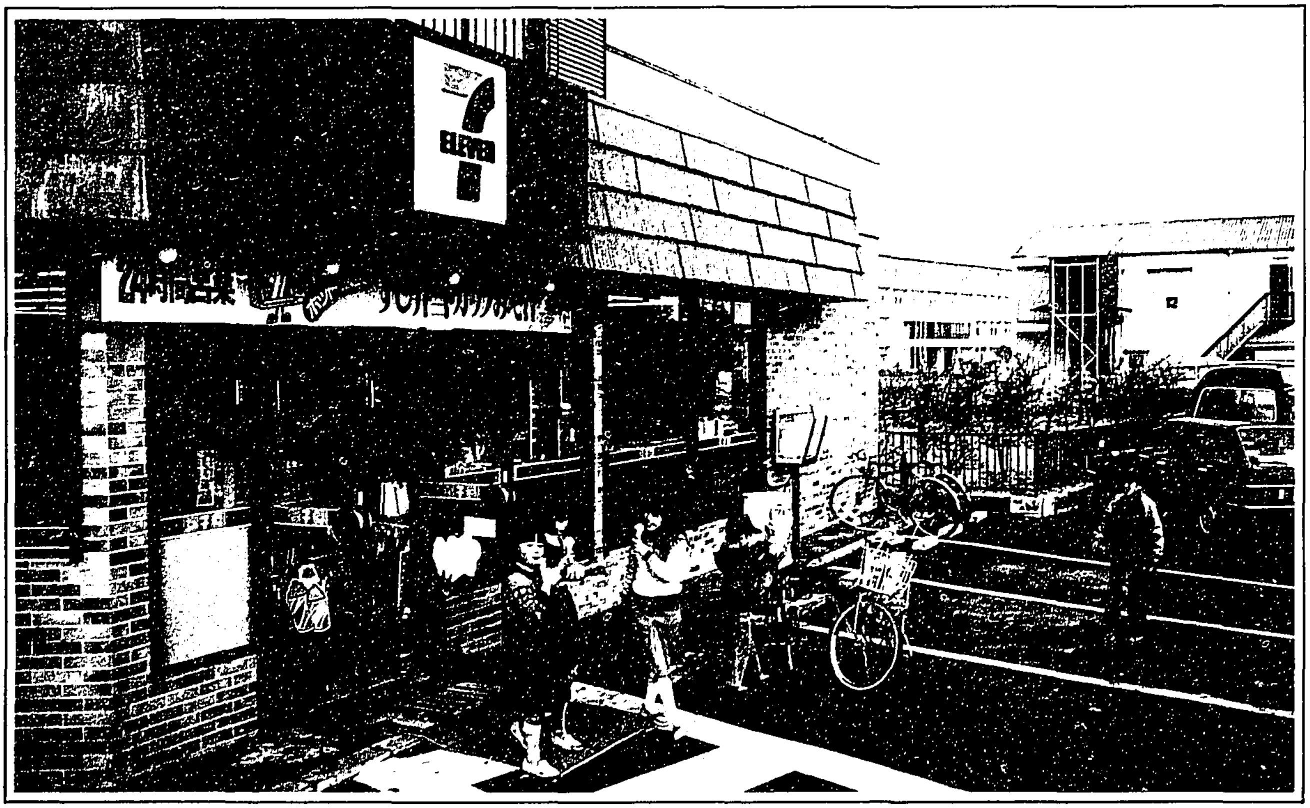
7-ELEVEn *stores profit from the Distribution Centers' less-than-case-lot service and timely deliveries.*

A wholly-owned subsidiary, R S McColl, was operating 389 confectionery, tobacco, and news (CTN) shops in England and Scotland at year-end, as well as 16 **7-ELEVEN** stores located in eight communities in central England. To improve sales and profitability, McColl remodeled 123 CTN stores and added more fast-foods and other items to the product selection. In addition, the size of new stores is being increased to an average of 1,500 square feet to provide greater merchandising flexibility.

Southland also has an equity interest in 10 Super Siete convenience stores in Monterrey, Mexico. In January, 1981, the first store was opened in Mexico City, and another three are scheduled to begin operations early this year. In Sweden, where the Company has an equity interest in 32 Näröppet units, the first **7-ELEVEN** opened in downtown Stockholm in late June, and by year-end, seven Näröppet stores were operating under the **7-ELEVEN** name.

International and domestic expansion through the **7-ELEVEN** area license program gained momentum during 1980. In Japan, where the **7-ELEVEN** concept was introduced six years ago, a November celebration marked the opening of the 1,000th store. At year-end, 1,015 units were open, 241 more than in 1979. The first **7-ELEVEN** in Taiwan opened in February, and 28 were operating by year-end. The stores, all conversions of existing shops, range from 800 to 1,500 square feet and provide customers with a variety of American and Chinese products. An agreement was signed in November for the development of **7-ELEVEN** stores in Hong Kong, with the first unit scheduled to open early in 1981. In Australia, 12 stores were added, increasing to 29 the total operating in the Melbourne area. Also, 13 stores were open in the eastern Canadian provinces of New Brunswick, Nova Scotia, and Prince Edward Island. Eight domestic licensees for designated areas in 22 states, whose operations range from 11 to 90 stores, had a total of 377

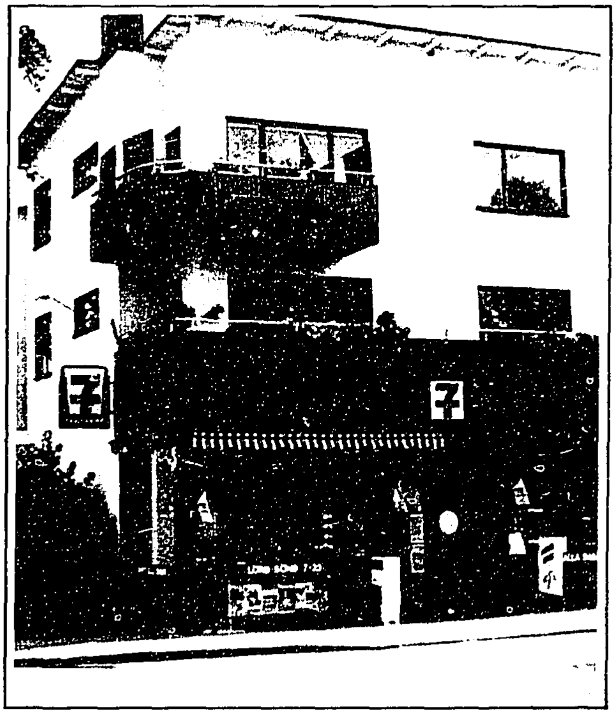
*More than 1,000 **7-ELEVEN** stores in Japan feature Slurpees, fast foods, and traditional Japanese products.*



stores open at year-end, 31 more than the prior year.

Sales of international operations and area licensees are not included in Southland's revenues, while earnings of affiliates and royalties from licensees based upon sales are reported as other income.

Naröppet 7-ELEVEN stores are adding a new dimension of convenience in Sweden.



STORE SUMMARY

	Opened	Closed	End of Year
7-ELEVEN			
United States	341	276	6,680
Canada	30	5	215
Total	371	281	6,895
Chief	53	8	216
Gristede's	2	7	100
Super Seven	4	1	37
Total	430	297	7,248
United Kingdom			
R S McColl (CTN)	10	88	389
7-ELEVEN	4	2	16
Total	14	90	405
Affiliated Stores			
Sweden			
Naröppet	0	1	25
7-ELEVEN	7	0	7
Mexico			
Super Siete	1	0	10
Total	8	1	42
7-ELEVEN — Area Licenses			
Japan			[illegible]
United States			[illegible]
Australia			[illegible]
Taiwan			[illegible]
Canada			[illegible]
Total			[illegible]

Convenience shopping is as popular in Mexico City, where the first Super Siete store just opened, as it has been in Melbourne, Australia, since 1977.

D A I R I E S · G R O U P

(Millions)	1976	1977	1978	1979	1980	5 Year Compound Growth
Outside Sales	$235.7	$235.9	$252 8	$313 9	**$358.5**	11.5%
Intracompany Sales	103.6	125.8	135.6	158 6	**175.2**	14.4
Total	339.3	361.7	388.4	472.5	**533.7**	12.4
Operating Profit	8.6	6.0	6.4	10.3	**14.5**	7.4

The Dairies Group began the decade of the '80s with the best year in its history. Total sales increased 12.9% to $533.7 million, including intracompany sales of $175.2 million, up 10.5%. Sales to outside customers rose 14.2% to $358.5 million and accounted for 8% of Company sales. The excellent sales gain resulted primarily from aggressive marketing of a wider range of products, as well as the addition of new customers. The Group, with 26 processing plants and 78 distribution branches in 29 states and the District of Columbia, served 5,209 of the Company's convenience stores with milk, ice cream, and related products, supplying approximately 68% of the dairy products sold in all **7-ELEVEN** stores.

Adohr Farms • California
Bancroft • Wisconsin
Cabell's • Texas
Embassy • Maryland
Harbisons • Pennsylvania
Horten's • Ohio
Knowlton's • Texas
Midwest Farms • Tennessee
Oak Farms • Texas • Ohio
Velda Farms • Florida
® Wanzer's • Illinois

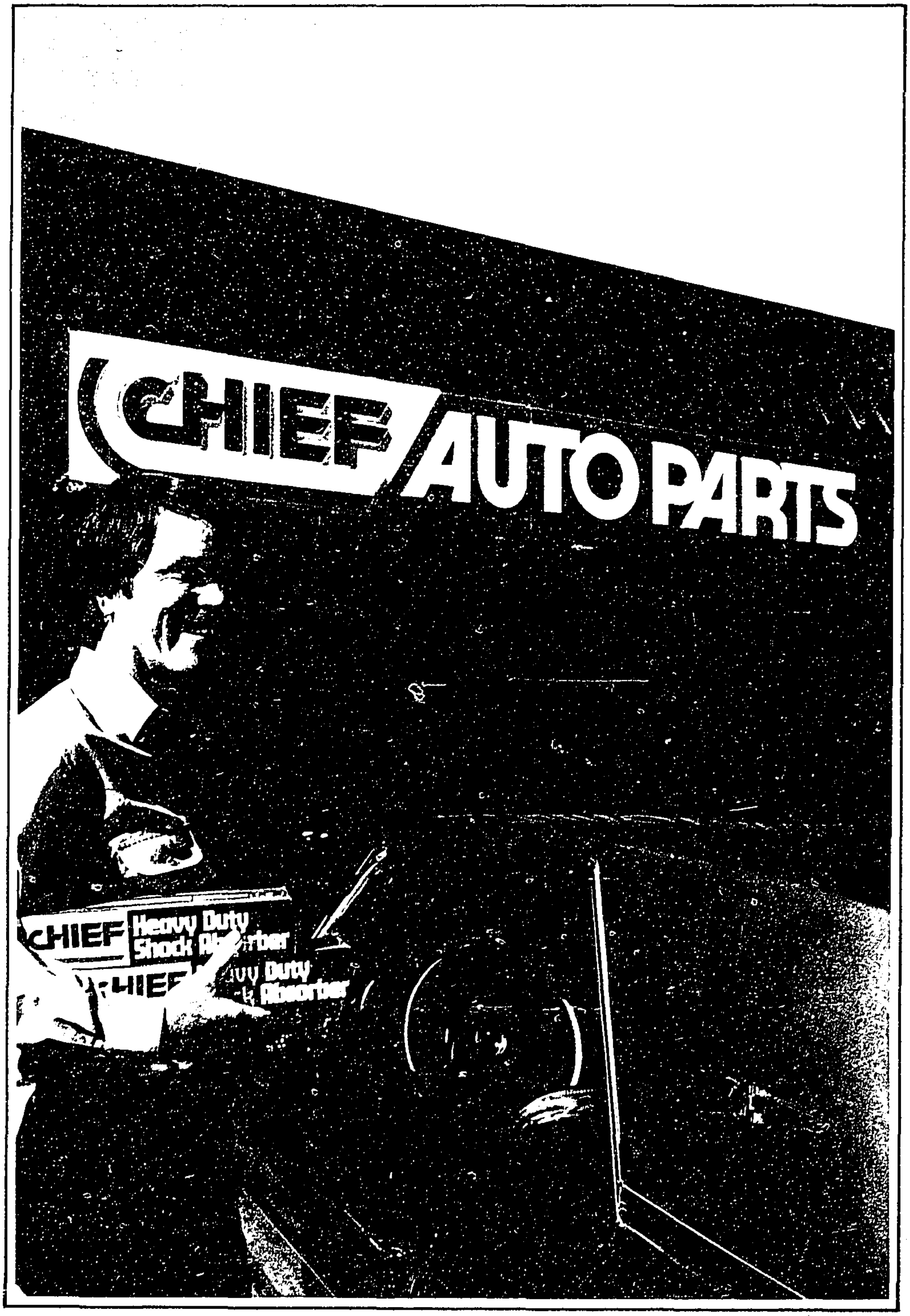
Operating profits were also the highest in the Group's history, and with an additional $1.8 million nonrecurring gain, increased 40.8% to $14.5 million. Market conditions throughout most of the country remained relatively stable during the year, enabling the Dairies to recover most of the higher cost of farm milk, as well as increases in processing and distribution expenses. Profits were improved by effective expense controls, efficiencies resulting from continuing plant modernization and automation programs, and the Group's promotion of more profitable items, such as frozen confections, premium-quality ice creams, ultra-pasteurized creams, cultured dairy products, fruit juices, and juice-base drinks.

The most extensive television campaign ever undertaken by the Dairies was conducted during the year to increase customer awareness of the Group's product line. "Milk — That's a Very Good Sign!" was the theme of television commercials during March in eight major markets, and in July, the "Big Wheel," "Big Deal," and ice cream sandwiches were featured on network television as part of the **7-ELEVEN** summer campaign.

Capital investments included a new Velda Farms distribution branch in Orlando, Florida, which opened in September. The facility was designed for the addition, when needed, of a full-scale processing plant to serve the fast-growing northern Florida market. At Cabell's Dallas plant, refrigerated milk storage capacity was more than doubled, and additional warehouse space, as well as a new milk receiving room and quality control laboratory, were completed. In California, Adohr Farms increased milk processing capacity and added production lines for juices and ice cream mixes at its Santa Ana plant and expanded cottage cheese and sour cream production capacity at the Tulare facility.

School children nationwide enjoy high-quality products from the Dairies Group.

SPECIAL•OPERATIONS



(Millions)	1976	1977	1978	1979	1980	5 Year Compound Growth
Outside Sales	$25.2	$32.4	$39.7	$ 89.3	**$106.1**	33.8%
Intracompany Sales	13.3	14.5	15.3	23.2	**16.2**	3.6
Total	38.5	46.9	55.0	112.5	**122.3**	26.1
Operating Profit	6.4	6.7	5.7	7.6	**(2.8)**	—

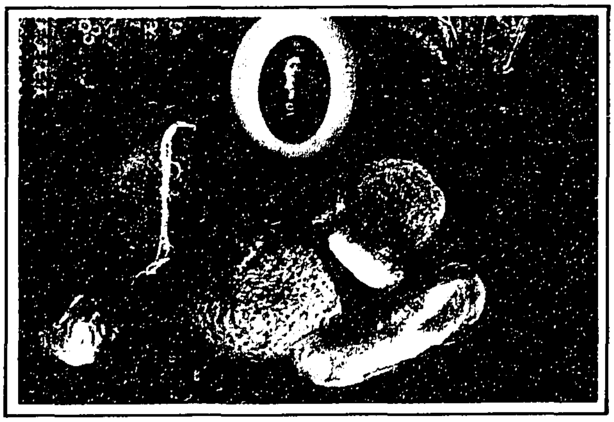
The Special Operations Group consists of diversified businesses which distribute products to a growing number of outside customers, as well as to Southland operations. Group sales increased 8.7% to $122.3 million, including outside sales of $106.1 million, up 18.8%, which represented 2% of Company sales. The Group experienced an operating loss of $2.8 million, compared with a profit of $7.6 million a year ago, primarily because of a $2.7 million operating loss relating to the expansion program of Chief Auto Parts, a $2.0 million loss at Tidel Systems due to product development and extensive engineering changes, and the elimination of $3.3 million in earnings resulting from the sale of the Hudgins Truck Rental Division in February, 1980.

Chief Auto Parts, a leader in the highly fragmented retail auto replacement parts industry, serves do-it-yourself car owners in two of the nation's fastest growing markets — southern California and north Texas. With the net addition of 45 stores and increased sales in existing units, the Division reported a 33% increase in total volume in 1980 when many auto replacement parts companies experienced only modest increases. From a base of 119 stores acquired at the end of 1978 in the Los Angeles area, Chief aggressively expanded into north Texas and Las Vegas in 1979 and added units in all three markets in 1980, ending the year with 216 stores, 145 of which are in California, 1 in Arizona, 8 in Las Vegas, and 62 in Texas.

Almost doubling Chief's size in two years has resulted in substantial start-up and expansion-related costs, including those associated with the opening of a large Dallas warehouse and a 50% increase in capacity at the California warehouse. In addition, the selection and training of new store personnel, field management, and staff necessary to support this growth significantly increased operating expenses.

To permit greater merchandising flexibility, floor space in the new stores is being increased to approximately 2,400 square feet, and the product assortment reduced to 6,000 from 6,500 items to allow larger in-store inventories of the fastest moving parts and accessories. The store layout has also been revised for greater attractiveness, security, and accessibility. In addition, advertising expenditures have been increased to build customer awareness of Chief's high-quality products and convenient locations, including price-oriented newspaper advertising and television commercials which encourage customers to "Buy It Right At Chief — Do It Right At Home."

Convenient neighborhood locations are as vital to Chief as they are to **7-ELEVEN**, and the two operations are proving compatible. At year-end, 22 Chief stores were operating near **7-ELEVEN** units, including 10 "combination stores" built as part of the same complex.



The Chemical Division provides a variety of fine products to the food processing industry.

The Chemical Division produces a broad line of specialty chemicals for sale to domestic and international customers, as well as to Southland operations. The Division's sales increased 20.5%, with outside customers representing 84% of total volume.

The food ingredients plants in Dallas and Sanford, Florida, produce food flavorings, preservatives, emulsifiers, dough strengtheners and softeners, and other products used in the baking, bottling, pharmaceutical, dairies, food processing, and animal feed industries. Products supplied to Southland operations include "Slurpee" flavor concentrates, dairy product flavorings, stabilizers, preservatives, cleansers, and sanitizers.

Non-food chemicals are manufactured at plants in Dallas, Chicago, and Great Meadows, New Jersey. The Dallas operations manufacture cleansers, sanitizers, mirror backing compounds, specialty coatings for major appliance manufacturers, and flexographic inks. The Chicago facility produces a number of compounds, including sulfonated oils, phosphate esters, certain defoamers for chemical processing, sodium acetate for controlling relative acidity in many industrial processes, leather tanning compounds, and chemicals used by oil field services companies. During the year, the Chicago plant developed a line of metal working fluids used in heavy steel and other metals fabrication. The Great Meadows facility provides "fine chemical" products for customers in the pharmaceutical and agricultural industries, as well as custom manufacturing to industrial specifications.

Reddy Ice plants were at full capacity during the long, hot summer of 1980.

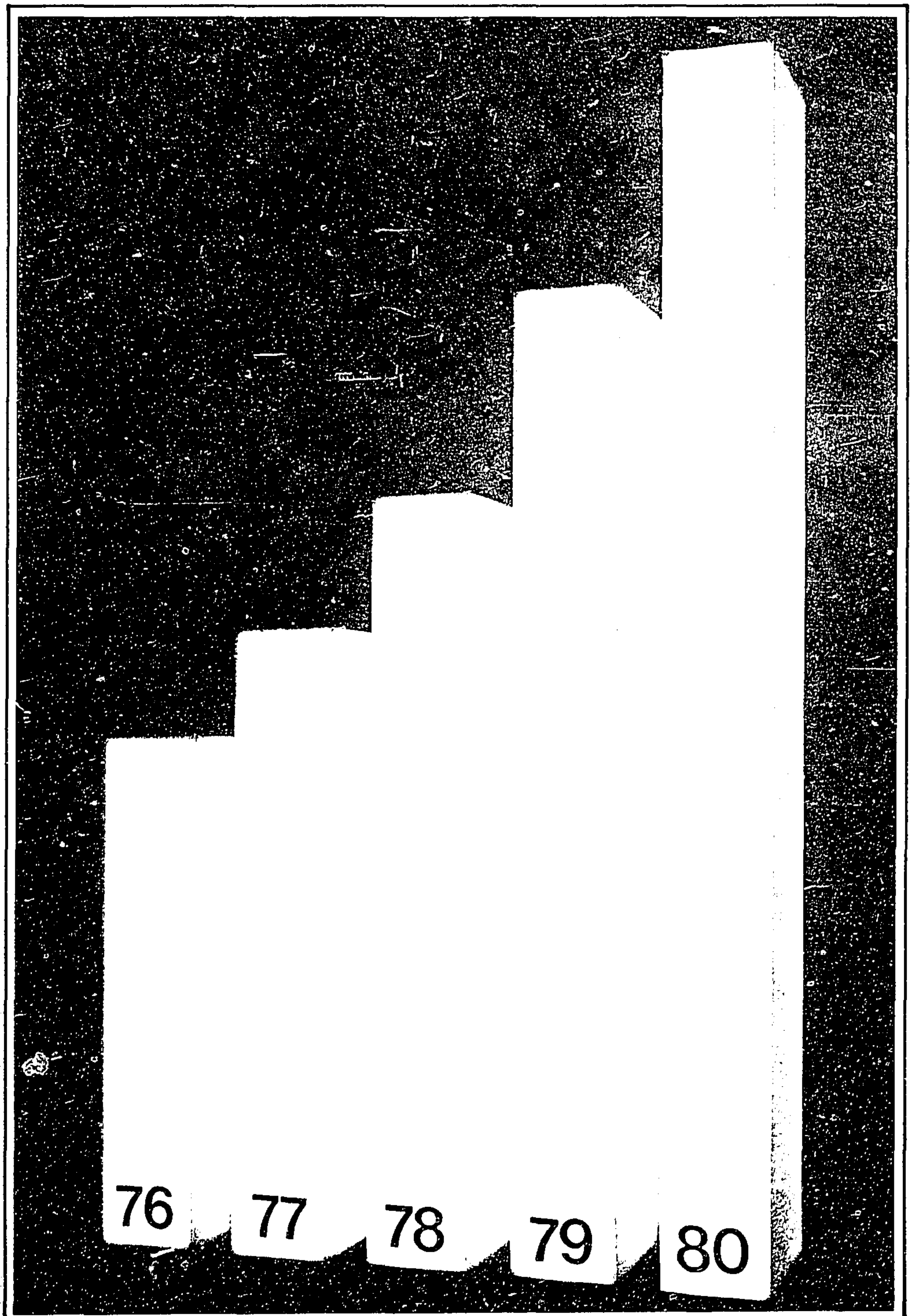
Reddy Ice, Southland's oldest division, enjoyed an outstanding year in 1980, with a 24% increase in volume of packaged and commercial ice, due primarily to record-setting temperatures in Texas, its major market. Sales through 7-ELEVEN stores and other outlets were up 17.8%, with 68% of the volume from outside customers. Reddy Ice plants in Dallas, Waco, Houston, Austin, Ft. Lauderdale, and Las Vegas have total annual production capacity of almost a half-million tons. In addition to serving its established customers in Arizona, Arkansas, California, Florida, Louisiana, Nevada, Texas, and Utah, the Division entered the Colorado market in 1980.

Unusually warm winter weather continued to limit sales of "Reddy Wood," available at 7-ELEVEN and other retailers in Texas. The small carryout bundles of firewood were added to the product line in 1978 in an effort to balance highly seasonal labor and equipment requirements.

Tidel Systems, during the first half of 1980, completed the installation of its "Timed Access Cash Controller" (TACC) in 7-ELEVEN stores. The TACC is a microcomputer-based security and dispensing unit developed for cash-oriented retailers. Checks and excess money can be secured in a time-locked compartment built into the TACC, while an independent, electronically-controlled dispensing system provides access to predetermined amounts of cash at variable time intervals. As a result, minimum currency is kept in the cash registers, yet a limited amount of money is conveniently available to cash checks or make change. The TACCs also are an important part of the extensive 7-ELEVEN robbery prevention program, which has reduced the average loss per incident by almost 30%.

In addition to branch offices in Atlanta, Chicago, Dallas, Houston, and Los Angeles, Tidel has now developed a nationwide network of independent distributors and dealers. Early in the year, the Division introduced a new model of the cash controller, the TACC II, but faced costly production and marketing delays which reduced sales when it became necessary to reengineer and retrofit certain components.

FINANCIAL·REVIEW



Selected Financial Data

THE SOUTHLAND CORPORATION AND SUBSIDIARIES

	1980	1979	1978	1977	1976
Operations (Note 1)			(Dollars in thousands except per share data)		
Net sales	**$4,758,656**	$3,856,222	$3,076,532	$2,536,109	$2,115,769
Other income	**23,949**	19,837	13,562	9,306	6,254
Total revenues	**4,782,605**	3,876,059	3,090,094	2,545,415	2,122,023
Increase over prior year	**23.39%**	25.43%	21.40%	19.95%	18.50%
Net earnings	**77,672**	83,141	57,097	45,317	37,849
Increase over prior year	**(6.58)%**	45.61%	25.99%	19.73%	18.03%
Per revenue dollar	**1.62%**	2.14%	1.85%	1.78%	1.78%
Return on beginning shareholders' equity	**15.61%**	22.20%	17.30%	15.62%	14.56%
Pro forma earnings (Note 2)	**77,672**	68,273	60,357	47,664	40,037
Increase over prior year	**13.77%**	13.12%	26.63%	19.05%	18.74%
Assets Employed (Note 1)					
Working capital	**191,756**	161,657	136,413	131,634	96,269
Current ratio	**1.50**	1.53	1.52	1.64	1.60
Property, plant, and equipment including capital leases (net)	**855,307**	838,796	677,284	567,442	506,190
Depreciation and amortization	**90,094**	79,111	67,724	61,735	55,029
Total assets	**1,495,385**	1,367,575	1,134,476	942,531	799,261
Capitalization (Note 1)					
Long-term debt	**312,535**	326,893	261,460	195,520	153,093
Capital lease obligations	**224,753**	226,257	211,342	192,547	178,556
Shareholders' equity	**554,209**	497,605	374,467	329,952	290,142
Total capitalization	**1,091,497**	1,050,755	847,269	718,019	621,791
Shareholders' equity to total capitalization	**50.78%**	47.36%	44.20%	45.95%	46.66%
Per Share Data (Notes 1 and 3)					
Primary earnings	**3.29**	3.73	2.67	2.13	1.81
Earnings assuming full dilution	**3.19**	3.61	2.58	2.07	1.75
Pro forma primary earnings (Note 2)	**3.29**	3.07	2.82	2.24	1.91
Pro forma earnings assuming full dilution (Note 2)	**3.19**	2.97	2.73	2.17	1.84
Cash dividends	**.91**	.78	.64	.52	.41
Shareholders' equity	**23.44**	22.34	17.49	15.54	13.84
Other Data					
Cash dividends	**21,511**	17,382	13,628	10,961	8,660
Dividends as a % of net earnings (Note 1)	**27.69%**	20.91%	23.87%	24.19%	22.88%
Stock dividends	**3%**	3%	3%	3%	3%
Average shares outstanding (Note 4)	**23,640,048**	22,274,263	21,410,955	21,234,456	20,965,280
Average diluted shares (Note 4)	**24,583,510**	23,267,942	22,416,583	22,308,757	22,184,529
Market price range (Note 4)					
High	**29¼**	30¼	31¾	24⅜	24⅝
Low	**17**	23⅝	20¼	18¼	18⅛
Year-end	**20½**	27⅞	25¼	23⅛	24
Number of shareholders	**8,429**	8,708	8,627	8,764	8,881
Number of employees	**44,600**	44,300	37,000	34,000	31,000

Notes:

(1) The years 1976 and 1977 have been restated for the change in the method of accounting for leases to comply with the provisions of Statement of Financial Accounting Standards No 13

(2) Earnings data for the years 1976 through 1978 have been restated to reflect the change in accounting for investment tax credits

(3) Based on average shares outstanding adjusted for stock dividends

(4) Adjusted for stock dividends

Management's Discussion and Analysis of Financial Condition and Results of Operations

For the Three-Year Period 1978-1980:

In 1979, Southland made three accounting changes: (1) from the first-in, first-out (FIFO) to the last-in, first-out (LIFO) method of determining the cost of certain inventories, (2) from the deferral to the flow-through method of accounting for investment tax credits (ITC), and (3) adopted Statement of Financial Accounting Standards No. 34 (SFAS No. 34), which requires the capitalization of certain interest costs incurred to finance construction or development of properties. As the Company, in conformity with generally accepted accounting principles, is not permitted to restate prior year financial statements for any of the above accounting changes, the 1978 financial statements are not fully comparable with those of 1980 and 1979. However, pro forma earnings for 1978, which may be shown, remove the cumulative effect of the accounting change for ITC and present the year as if on the flow-through method.

Results of Operations:

Revenues

Revenues (net sales of products and merchandise, including sales by 7-Eleven stores operated by franchisees, and other income) established all-time highs in each of the past three years, with all business segments contributing to the gains.

Revenues (Millions)	1980	% Gain	1979	% Gain	1978	% Gain
Net Sales						
Stores Group	**$4,294.1**	**24.4**	$3,453.0	24.0	$2,784.0	22.8
Dairies Group	**358.5**	**14.2**	313.9	24.2	252.8	7.2
Special Operations Group	**106.1**	**18.8**	89.3	124.9	39.7	22.5
Total	**4,758.7**	**23.4**	3,856.2	25.3	3,076.5	21.3
Other Income	**23.9**	**20.7**	19.8	45.6	13.6	46.2
TOTAL	**$4,782.6**	**23.4**	$3,876.0	25.4	$3,090.1	21.4

The Stores Group accounted for approximately 90% of total sales each year during the period. 7-Eleven volume, representing about 83% of total sales, increased 23.7% to $3.97 billion in 1980, following gains of 23.9% in 1979 and 23.3% in 1978.

For 1980, 7-Eleven sales, excluding gasoline, were up 15.8% to $3.06 billion after increases of 17.9% and 18.3% in 1979 and 1978. These excellent gains resulted from sales in existing stores in excess of the rate of inflation and the net addition of 90, 206, and 242 7-Eleven stores in 1980, 1979, and 1978, respectively. More efficient use of selling space, successful prime-time television advertising, introduction of new products, and competitive pricing of selected items, especially milk, beer, cigarettes, and soft drinks, contributed to the gains.

Self-serve gasoline is the largest single product category in the 7-Eleven mix, reaching 23.0%, 17.2%, and 13.4% of total convenience store sales in 1980, 1979, and 1978, respectively.

Gasoline	1980	% Gain	1979	% Gain	1978	% Gain
Sales (Millions)	**$912.9**	**60.4**	$569.3	60.6	$354.5	71.1
Gallons (Millions)	**792.9**	**17.4**	675.5	9.6	616.2	65.1
Number of Stores	**2,246**	**6.6**	2,107	13.5	1,857	18.1

An Olympic-class velodrome for bicycle racing, to be built on the California State University Dominguez Hills campus, is being funded by Southland as a part of its corporate sponsorship of the 1984 Summer Games.

Gasoline sales in 1978 were up due primarily to a substantial increase in volume. Higher retail prices were largely responsible for the 1979 sales gain although gallonage was up slightly, even in the face of a nationwide supply shortage. Although there were ample supplies in 1980, retail prices continued to escalate and were the main reason for the sales gain. As a result of these dramatic increases, gasoline sales contributed almost one-half of the gain in 7-Eleven sales in 1980, compared with about one-third in 1979 and 1978.

The Dairies Group, accounting for 8% of total sales, achieved excellent results for the second consecutive year. The 1980 and 1979 sales gains, which were in excess of the rate of inflation, resulted in part from an overall improvement in market conditions after the severely competitive environment experienced in 1978. Increased volume of milk, ice cream, and related dairy products, the addition of new products and customers, and greater emphasis on the institutional food service market also contributed to the gains.

The Special Operations Group, including the Chief Auto Parts Division acquired at the end of 1978, represents 2% of total sales.

Other income (interest income, area license royalties, equity in earnings of affiliates, and net gain on sale of assets no longer of use to the Company) is included in total revenues. Interest income and area license royalties represented more than 75% of other income in each of the three years.

Gross Profits and Margins

Gross profits (sales less cost of goods sold, including buying and occupancy expenses) were up 15.6%, 21.8%, and 21.1%, compared with sales gains of 23.4%, 25.3%, and 21.3% in 1980, 1979, and 1978, respectively. For the same periods, gross margins (gross profits divided by sales) were:

Gross Margins (Percentage)			
QUARTERS	**1980**	1979	1978
First	**21.82**	22.92	23.94
Second	**23.04**	25.49	25.56
Third	**23.38**	24 80	25.04
Fourth	**21.49**	22 71	24 18
YEAR	**22.47**	24 01	24.71

Although corporate margins declined, 7-Eleven margins, excluding gasoline, increased in each of the three years. The improvement was due largely to increased sales of high-margin products, such as fountain soft drinks, fast foods, non-foods, and snack items, which were featured on network television and supported by in-store promotions and other successful marketing programs.

From 1978 to 1980, the average retail price per gallon doubled, and cents per gallon profit increased at an even greater rate. Gasoline profits were up in 1978 because of higher volume, and in 1979, they almost tripled because of a substantial increase in profit per gallon. In 1980, while cents per gallon profit was down slightly, higher volume resulted in increased profits.

Dairies Group margins remained relatively stable during the period. While some markets continue to experience severe competition, generally favorable industry conditions, together with aggressive merchandising and promotions, introduction of new products, and processing efficiencies attributable to sustained plant modernization and automation programs have enabled the Group to maintain its margins.

Although gasoline gross profits increased dramatically during the period, the impact of this low-margin item, as a larger percentage of the product mix, caused both 7-Eleven and overall corporate margins to decline. In addition, margins have been adversely affected by increases in buying and occupancy expenses, including store rents and maintenance, utilities, inventory shortages, and taxes. Also, because of the change to LIFO in 1979, the 1978 gross margins are not comparable with those of 1980 and 1979.

Selling, General, and Administrative Expenses

These expenses were up 15.5%, 26.8%, and 21.5%, compared with gross profit gains of 15.6%, 21.8%, and 21.1% in 1980, 1979, and 1978, respectively. For the same periods, the ratios of these expenses to sales were:

Selling, General, and Administrative Expenses (Percentage)			
QUARTERS	**1980**	1979	1978
First	**20.07**	20.77	20 67
Second	**18.47**	20.17	19.64
Third	**19.02**	19.99	19.53
Fourth	**18.26**	19.99	20 17
YEAR	**18.91**	20.20	19.97

The ratio in 1979 increased .23 compared with 1978, primarily due to the Company's decision to expand and upgrade field management and support staff in the areas of merchandising, gasoline procurement and marketing, real estate, construction, personnel, training, security, and accounting. In addition, many other inflation-fueled operating expenses, including wages and related payroll costs, travel, and administrative expenses, increased at a faster pace than the growth in gross profits.

In late 1979, the Company instituted numerous programs to bring this rate of growth in operating expenses more in line with that of gross profits. As a result, 1980 gross profits were up 15.6%, compared with a 15.5% increase in selling, general, and administrative expenses. The improvement in controlling expenses, as well as increased sales, resulted in the ratio of expenses to sales declining 1.29 to 18.91%.

Interest and Imputed Interest Expense

Interest and imputed interest expense increased 15.2% in 1980, 14.5% in 1979, and 11.2% in 1978, primarily because of three unsecured debt financings completed in 1979, 1978, and 1977. Pursuant to SFAS No. 34, the Company reduced interest expense by the capitalization of $3.5 million and $4.4 million of interest costs in 1980 and 1979, respectively.

Income Taxes

The effective federal and state income tax rates of 41.8% in 1980 and 40.6% in 1979 were substantially below the 1978 level of 49.3%, primarily because of the change to the flow-through method of accounting for ITC and the reduction in 1979 of the statutory tax rate from 48% to 46%.

Net Earnings

(Thousands)

QUARTER	1980	% Gain	1979*	% Gain	1978*	% Gain
First	**$ 6,079**	**(10.2)**	$ 6,768	(9.3)	$ 7,461	28.4
Second	**24,610**	**4.8**	23,494	23 2	19,071	24.5
Third	**27,034**	**10.2**	24,535	22 7	19,992	25.7
Fourth	**19,949**	**48.0**	13,476	(2.6)	13,833	30 2
TOTAL	**$77,672**	**13.8**	$68,273	13.1	$60,357	26 6

*Pro forma

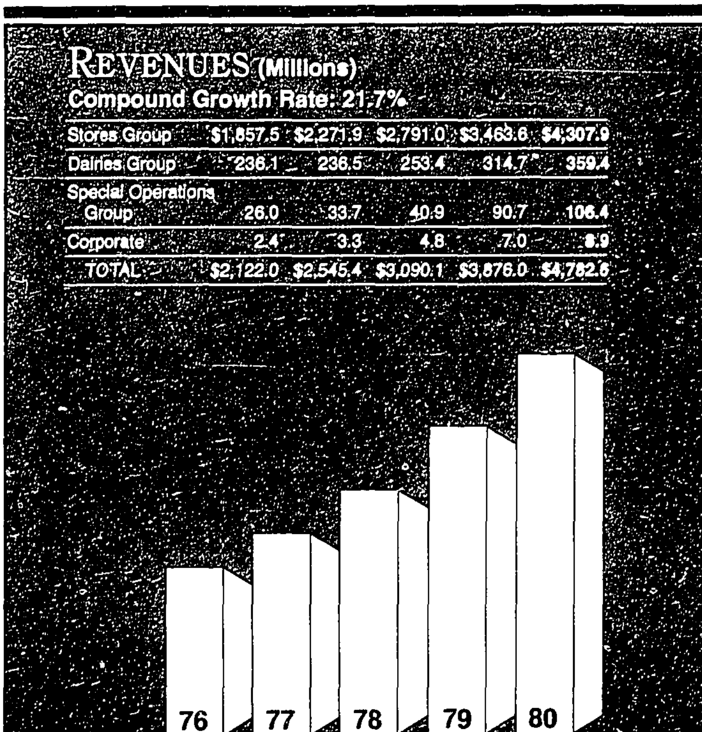
The strong earnings gain in 1978 resulted primarily from a 23.3% increase in 7-Eleven sales, continued emphasis on reducing operating costs, and improved productivity. In 1979, the increase was due largely to a 25.3% gain in total sales, stable dairy market conditions, and improved gross margins on both convenience store merchandise and self-serve gasoline. Total sales in 1980 continued strong, and although dairy and 7-Eleven margins, excluding gasoline, remained firm, the rate of increase in buying and occupancy expenses, as well as selling, general, and administrative costs, held down the earnings gain. In addition, operating losses by the Champaign Distribution Center and the Tidel Systems and Chief Auto Parts Divisions affected earnings.

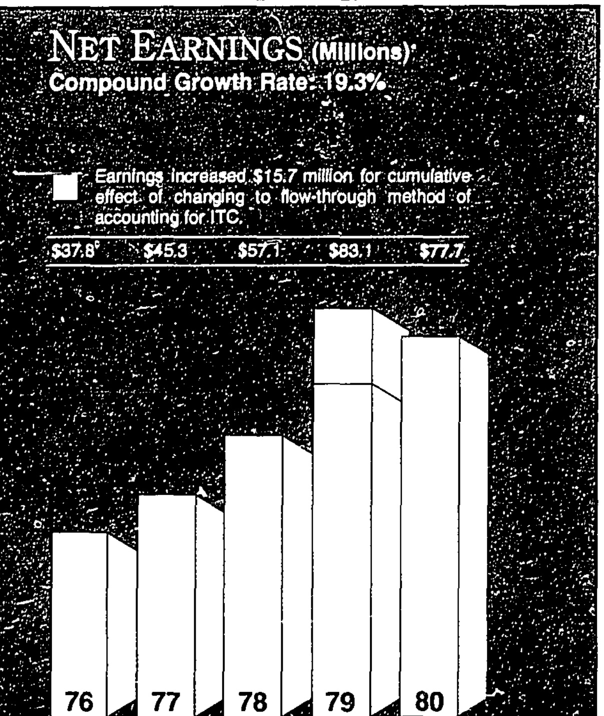
If the Company had remained on the FIFO method of determining cost of inventory, 1979 pro forma net earnings would have been $76.9 million, up 27.4%, and 1980 earnings would have been $86.8 million, up 12.9%.

Earnings Per Share*

Primary earnings per share increased 7.2% in 1980, 8.9% in 1979, and 25.9% in 1978, compared with net earnings gains of 13.8%, 13.1%, and 26.6% for 1980, 1979, and 1978, respectively.

Primary earnings were computed on the basis of 23,640,048, 22,274,263, and 21,410,955 average shares outstanding for the years 1980, 1979, and 1978,





respectively. The 1979 and 1980 increases in average number of shares outstanding were primarily the result of two million shares sold in August, 1979.

Primary						
QUARTER	**1980**	**% Gain**	1979**	% Gain	1978**	% Gain
First	**$ .26**	**(18.8)**	$ .32	(8.6)	$ .35	25.0
Second	**1.04**	**(4.6)**	1.09	22.5	.89	23.6
Third	**1.14**	**3.6**	1.10	18.3	.93	24.0
Fourth	**.85**	**51.8**	.56	(13.8)	.65	32.7
TOTAL	**$3.29**	**7.2**	$3.07	8.9	$2.82	25.9

Diluted earnings were computed on the basis of 24,583,510, 23,267,942, and 22,416,583 average shares for the years 1980, 1979, and 1978, respectively.

Diluted						
QUARTER	**1980**	**% Gain**	1979**	% Gain	1978**	% Gain
First	**$ .26**	**(16.1)**	$ .31	(8.8)	$ .34	25.9
Second	**1.00**	**(5.7)**	1.06	23.3	.86	22.9
Third	**1.11**	**4.7**	1.06	17.8	.90	25.0
Fourth	**.82**	**51.9**	.54	(14.3)	.63	31.3
TOTAL	**$3.19**	**7.4**	$2.97	8.8	$2.73	25.8

*Adjusted for 3% stock dividend in each year.
**Pro forma

Liquidity and Capital Resources:

Liquidity

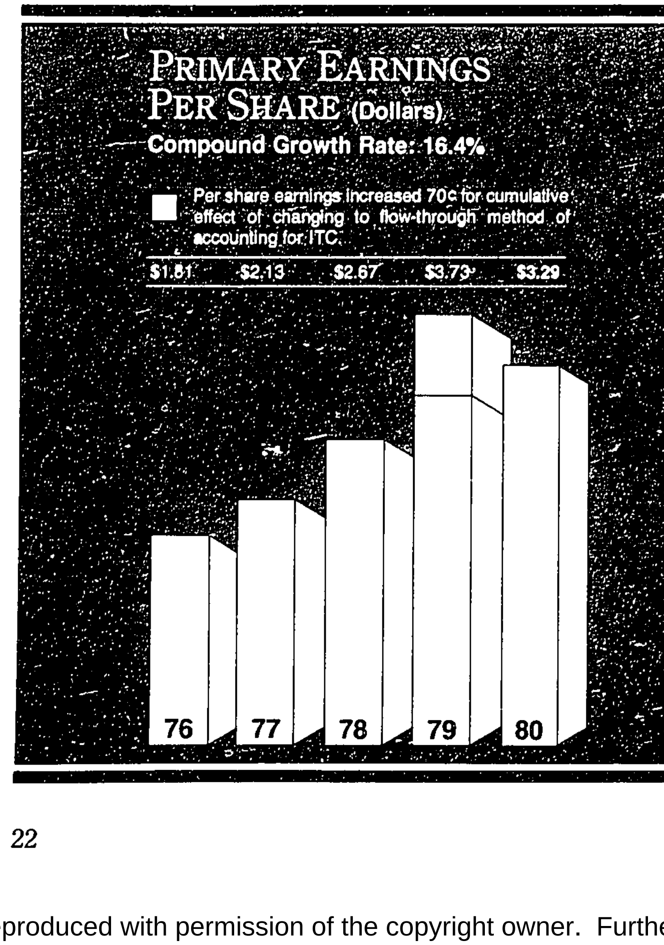
Working capital (current assets less current liabilities) and current ratio (current assets divided by current liabilities) for the three-year period were.

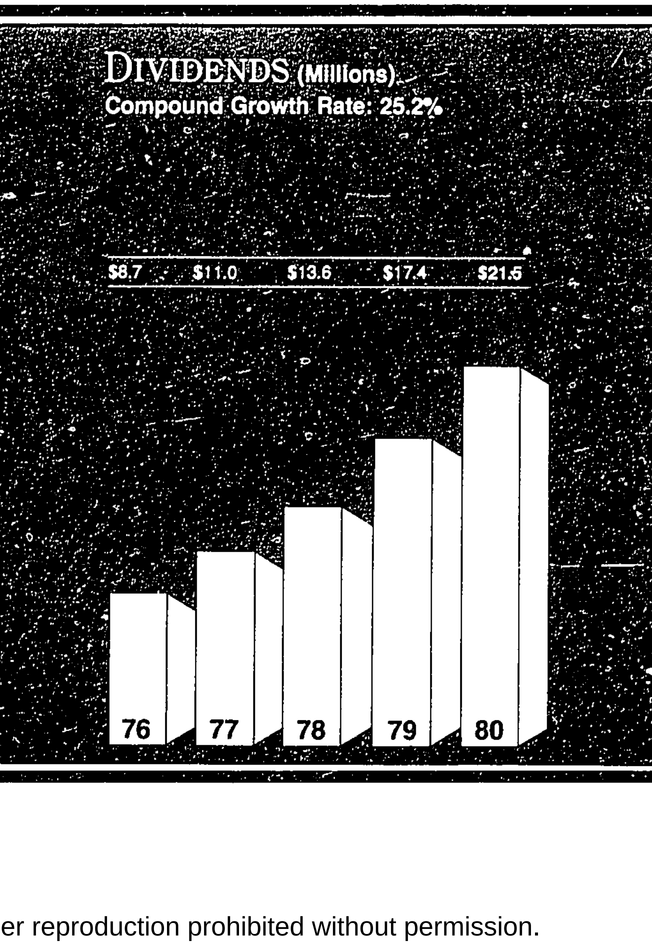
	1980	1979	1978
Working Capital (Millions)	**$191.8**	$161.7	$136.4
Current Ratio	**1.50**	1.53	1.52

The Company considers its cash flow sufficient to meet working capital requirements. Approximately 85% of total sales are for cash, and inventories and receivables are rapidly converted into cash. Due to this high degree of liquidity, Southland has not had a need for short-term debt, even though adequate sources of funds are available if required. However, to establish an alternate source of cash, the Company, in 1979, for the first time, issued a limited amount of commercial paper, which was rated "P-2" by Moody's and "A-2" by Standard & Poor's.

Capital Resources

There are many opportunities for Southland to expand its sales and earnings base, and the Company intends to vigorously pursue those opportunities. Capital spending plans include continued major investments





to strengthen Southland's position of leadership in the convenience store business and to develop and expand its other operations in line with customer demand. In keeping with this program, investments in property, plant, and equipment for the three-year period were:

(Millions)	1980	%	1979	%	1978	%
Stores Group	$ 92.1	80	$180.9	81	$110.5	73
Dairies Group	9.7	9	11.1	5	9.7	6
Special Operations Group	10.7	9	20.3	9	23.1	15
Corporate	2.0	2	10.7	5	9.1	6
TOTAL	$114.5	100	$223.0	100	$152.4	100

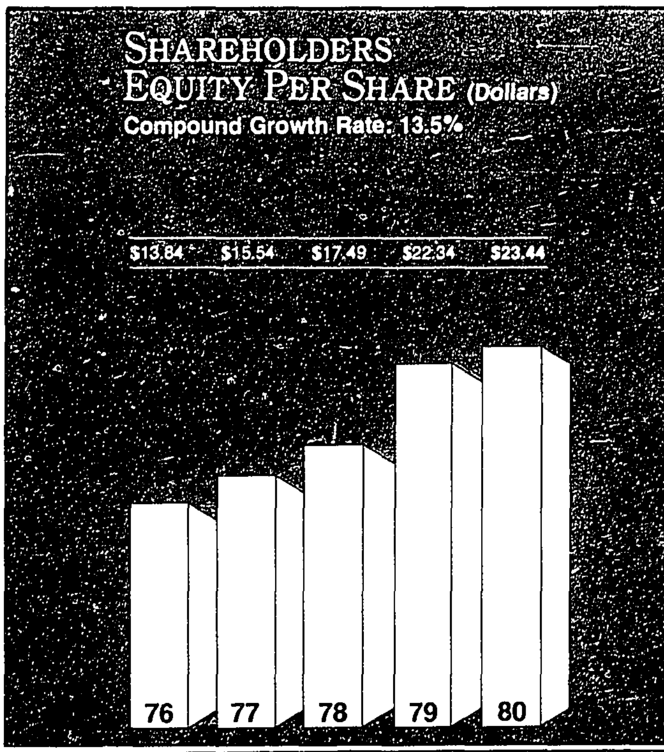
The reduction in 1980 capital expenditures was primarily the result of realigning the 7-Eleven store remodeling and expansion programs and the adoption of more exacting site selection standards to increase return on investment from new stores.

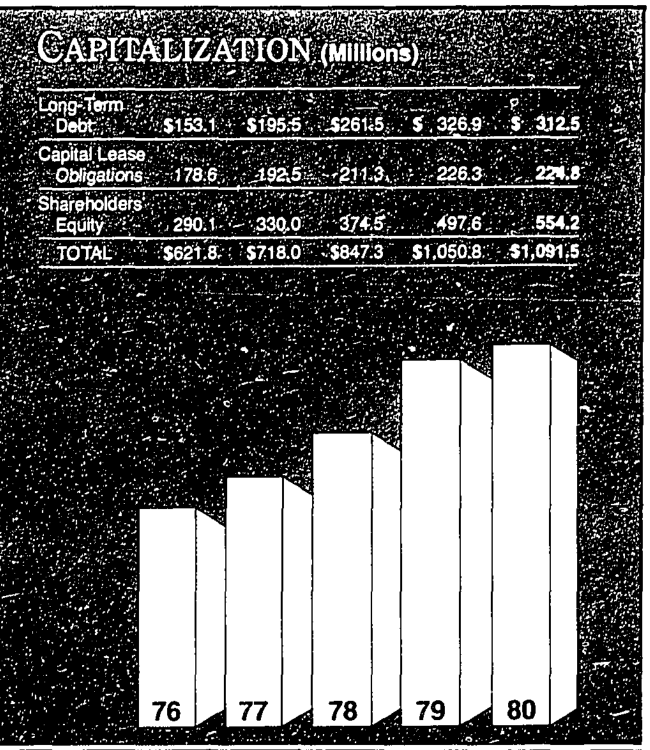
To provide the long-term capital necessary for growth, Southland will continue to utilize the most advantageous combination of funds from operations, debt, equity, and lease financing. In February, 1977, the Company sold $50 million 8⅜% sinking fund debentures, its first public unsecured debt issue. This debt, as well as the unsecured $75 million 9½% and $50 million 9⅜% issues, sold in August, 1979, and December, 1978, respectively, are rated "A" by both Moody's and Standard & Poor's.

While Southland prefers to own the premises from which it conducts its store operations, many desirable locations are available only on a lease basis. The Company considers both capital and operating leases to be valuable assets and essential to operations. The amount of capital lease obligations outstanding has changed only slightly during the period, as indicated in the table below, although aggregate operating lease rentals have increased substantially. The Company plans to continue utilizing both methods of lease financing.

Shareholders' equity increased 11.4%, 32.9%, and 13.5% for the years 1980, 1979, and 1978, respectively. The substantial increase in 1979 was largely the result of selling two million shares of common stock in August and the cumulative effect of the accounting change for ITC.

The effect on the Company's capital structure of record earnings, capital leases, and the equity and long-term debt financings completed during the period was:





Long-Term Debt	$153.1	$195.5	$261.5	$ 326.9	$ 312.5
Capital Lease Obligations	178.6	192.5	211.3	226.3	224.8
Shareholders Equity	290.1	330.0	374.5	497.6	554.2
TOTAL	$621.8	$718.0	$847.3	$1,050.8	$1,091.5

(Millions)	1980	%	1979	%	1978	%
Long-Term Debt	**$ 312.5**	**28.6**	$ 326.9	31 1	$261.5	30 9
Capital Lease Obligations	**224.8**	**20.6**	226 3	21 5	211 3	24.9
Shareholders' Equity	**554.2**	**50.8**	497 6	47.4	374 5	44.2
TOTAL	**$1,091.5**	**100.0**	$1,050 8	100.0	$847.3	100 0

The ratio of long-term debt and capital lease obligations to total capitalization declined from 55.8% in 1978 to 49.2% in 1980, primarily as a result of an increase in retained earnings, the additional capital from the sale of two million shares in 1979, and greater utilization of operating leases.

OTHER FINANCIAL DATA:

Dividends

Cash dividends have been declared each year since 1957, and the annual rate has been increased nine times in the past 10 years. Southland's conservative cash dividend policy emphasizes optimum return to its shareholders consistent with the Company's level and trend of profitability, its opportunities to invest for growth, and the maintenance of a sound capital structure.

Dividends Paid Per Common Share			
CASH. QUARTER	**1980**	1979	1978
First	**$ .21**	$ .18	$ 15
Second	**.24**	21	.18
Third	**.24**	21	18
Fourth	**.24**	21	18
TOTAL	**$ .93**	$ 81	$ .69
STOCK.	**3%**	3%	3%

In April, 1978, the annual dividend rate was increased 20% to 72¢ a share, in 1979, 16.7% to 84¢, and in 1980, 14.3% to 96¢. Although no fixed dividend payout percentage has been established, future payments are expected to range between 20-30% of annual earnings as they have for the past seven years.

Profit Sharing and Pension Plans

The Company contributes to The Southland Corporation Employees' Savings and Profit Sharing Plan, established in 1949, and to various union pension plans. Eligible employees have the option of joining Southland's voluntary contributory plan. Company contributions to this fully funded, trustee-administered plan are based on earnings before federal income taxes. All required contributions to such plans have been made.

Market Data

Southland's common stock is traded under the symbol SLC on the New York, Pacific, Boston, and Philadelphia Stock Exchanges. The following market price and earnings per share information has been adjusted for a 3% stock dividend in each year. The price/earnings ratios are based upon pro forma primary earnings per share for the four preceding quarters.

QUARTER	Price Range		Price/Earnings Ratio	
1980	High	Low	High	Low
First	**29¼**	**17¾**	**9.5**	**5.8**
Second	**22⅝**	**17**	**7.5**	**5.6**
Third	**24½**	**18⅞**	**8.3**	**6.4**
Fourth	**23¾**	**19**	**7.9**	**6.4**
1979				
First	27⅝	23⅝	9 8	8 4
Second	27⅛	24⅛	9.7	8 6
Third	30¼	25⅝	10 1	8 6
Fourth	28⅞	24½	9 1	7 8
1978				
First	23½	20½	10 5	9 2
Second	27⅜	20¼	11 9	8.8
Third	31¾	24	12 8	9.7
Fourth	29⅛	23½	10 9	8 8

7-ELEVEN *snacks and quick meals are easy to select and prepare.*

SUPPLEMENTARY INFLATION DATA (UNAUDITED):

Introduction
Under generally accepted accounting principles, financial statements traditionally have been prepared on the basis of historical cost. Over time, inflation distorts this accounting measurement. Statement of Financial Accounting Standards No. 33 (Statement 33) requires the presentation of supplementary financial information which attempts to show the impact of inflation. Because this information is experimental in nature, two different methods of presentation are required.

Methods of Measuring the Effects of Inflation
The first method provides information with respect to general inflation (constant dollar) by adjusting historical cost into dollars having the same purchasing power. For example, if the inflation rate is ten percent from one year to the next, then ten percent more dollars are needed in the second year to maintain the same purchasing power. Statement 33 requires adjustment of certain historical financial data to constant dollars by using the Consumer Price Index for all Urban Consumers (CPI-U). Therefore, the historical cost of property, plant, and equipment and of capital leases and related depreciation and amortization expense are adjusted using the CPI-U. Also, inventories and the related effect of inventories on cost of goods sold are similarly adjusted.

The second method provides information with respect to changes in specific prices (current cost) by adjusting historical cost to the cost which is currently required to purchase inventories and property, plant, and equipment.

Over time, current cost increases at a rate different from the CPI-U. Current cost of property, plant, and equipment and of capital leases and related depreciation and amortization expense were determined by application of appropriate published and internally developed indexes. The last-in, first-out (LIFO) method is used to determine the cost of the majority of inventories. Because of the rapid turnover of inventories and the use of LIFO, the cost of goods sold as shown in the historical cost financial statements approximates current cost. Current cost of inventories were estimated using first-in, first-out valuations adjusted for price changes through the end of the year.

Management's Comments
The following schedules compare financial data reported on a historical cost basis with data adjusted both for general inflation and for current cost.

Revenues (in millions of dollars) for 1980 were $4,782.6, and for 1976, expressed in average 1980 dollars, were $3,071.6, resulting in an average annual compound real sales growth rate from 1976 to 1980 of 11.7%.

Net earnings determined under the constant dollar and current cost methods are lower than earnings determined under the historical cost method. This decline results principally from the higher depreciation and amortization expense arising from significant inflationary increases in the cost of property, plant, and equipment and of capital leases. The impact of inflation on inventories is not significant since reported earnings are based on LIFO which approximates the results obtained under the constant dollar and current cost methods.

Present tax laws do not allow deductions for depreciation adjusted for the effect of inflation. Therefore, the Company's tax rate based on data adjusted for the impact of inflation is in excess of the statutory rate. As shown in the following statement of earnings, the effective tax rate rises from 41.8% based on historical cost to 58.1% and 64.6% based on the general inflation and current cost methods.

The reduction in net earnings, discussed above, is more than offset by the unrealized gain from the decline in purchasing power of net amounts owed (monetary liabilities in excess of monetary assets). Since the monetary liabilities at year-end were larger than the monetary assets, a gain is shown. This gain represents the change in the amount of purchasing power required at year-end to pay these net liabilities versus the higher amount that would have been required to pay them at the end of the preceding year.

Selected Current Costs
The current costs of inventories and property, plant, and equipment including capital leases, net of accumulated depreciation and amortization at December 31, 1980, and corresponding historical cost amounts, were as follows (millions of dollars):

	Historical cost	Current cost
Inventories	$213.4	$ 252.8
Property, plant, and equipment, including capital leases — net	855.3	1,344.6

SUPPLEMENTARY INFORMATION — THE IMPACT OF GENERAL INFLATION AND SPECIFIC PRICE CHANGES ON SELECTED FINANCIAL DATA (Dollars in millions)

	Year ended December 31, 1980		
	As reported in financial statements	Adjusted for general inflation (constant dollar)	Adjusted for current cost
Revenues	$4,782.6	$4,782.6	$4,782.6
Cost of sales and expenses:			
Cost of goods sold, exclusive of depreciation and amortization	3,613.8	3,621.7	3,616.1
Depreciation and amortization	90.1	119.6	134.9
Interest expense including imputed interest expense on capital lease obligations	46.4	46.4	46.4
Other operating expenses	898.8	898.8	898.8
	4,649.1	4,686.5	4,696.2
Earnings before income taxes	133.5	96.1	86.4
Income taxes	55.8	55.8	55.8
Net earnings	$ 77.7	$ 40.3	$ 30.6
Effective tax rate	41.8 %	58.1 %	64.6 %
Unrealized gain from decline in purchasing power of net amounts owed		$ 80.4	$ 80.4
Increase in current cost of inventories, property, plant, and equipment, and capital leases held during the year			$ 267.9
Effect of increase in general inflation			173.8
Excess of increase in current costs over increase in general inflation			$ 94.1

FIVE-YEAR COMPARISON OF SELECTED SUPPLEMENTARY FINANCIAL DATA ADJUSTED FOR EFFECTS OF CHANGING PRICES (IN AVERAGE 1980 DOLLARS) (Dollars in millions except per share data)

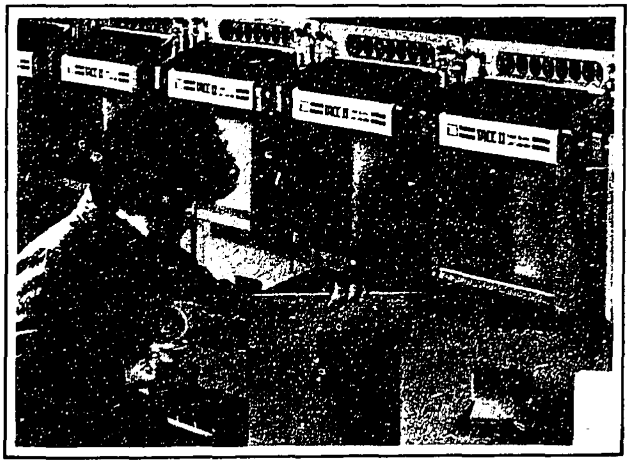
	Year ended December 31				
	1980	1979	1978	1977	1976
Revenues	**$4,782.6**	$4,400.2	$3,902.9	$3,461.2	$3,071.6
Historical cost information adjusted for general inflation.					
Earnings before cumulative effect of accounting change	**40.3**	49.3	—	—	—
Net earnings	**40.3**	67.1	—	—	—
Primary earnings per share:					
Before cumulative effect of accounting change	**1.70**	2.21	—	—	—
Net earnings	**1.70**	3.01	—	—	—
Net assets at year-end	**901.0**	852.7	—	—	—
Current cost information:					
Earnings before cumulative effect of accounting change	**30.6**	41.0	—	—	—
Net earnings	**30.6**	58.8	—	—	—
Primary earnings per share: Before cumulative effect of accounting change	**1.30**	1.84	—	—	—
Net earnings	**1.30**	2.65	—	—	—
Net assets at year-end	**1,041.4**	918.0	—	—	—
Excess of increase (decrease) in current cost over increase in general inflation	**94.1**	(21.4)	—	—	—
Unrealized gain from decline in purchasing power of net amounts owed	**80.4**	89.5	—	—	—
Cash dividends per common share	**.91**	.89	.80	.70	.60
Market price per common share at year-end	**20½**	31⅜	32⅛	32¼	35⅝
Average CPI-U	**246.8**	217.4	195.4	181.5	170.5

Consolidated Statements of Earnings

THE SOUTHLAND CORPORATION AND SUBSIDIARIES

	Year ended December 31 (Dollars in thousands except per share data) 1980	1979	1978
Revenues:			
Net sales	**$4,758,656**	$3,856,222	$3,076,532
Other income	**23,949**	19,837	13,562
	4,782,605	3,876,059	3,090,094
Cost of Sales and Expenses:			
Cost of goods sold, including buying and occupancy expenses	**3,689,512**	2,930,193	2,316,288
Selling, general, and administrative expenses	**899,686**	778,768	614,255
Interest expense	**23,841**	18,746	15,804
Imputed interest expense on capital lease obligations	**22,496**	21,490	19,325
Contributions to Employees' Savings and Profit Sharing Plan (Note 10)	**13,558**	13,304	11,714
	4,649,093	3,762,501	2,977,386
Earnings Before Income Taxes	**133,512**	113,558	112,708
Income Taxes (Notes 8 and 12)	**55,840**	46,082	55,611
Earnings Before Cumulative Effect in 1979 of accounting change for investment tax credits	**77,672**	67,476	57,097
Cumulative Effect of accounting change for investment tax credits (Note 12)	**—**	15,665	—
Net Earnings	**$ 77,672**	$ 83,141	$ 57,097
Earnings Per Share (Note 13):			
Earnings before cumulative effect of accounting change:			
Primary	**$3.29**	$3.03	$2.67
Fully diluted	**$3.19**	$2.93	$2.58
Net earnings:			
Primary	**$3.29**	$3.73	$2.67
Fully diluted	**$3.19**	$3.61	$2.58
Pro Forma Earnings, with accounting change in 1979 for investment tax credits applied retroactively (Note 12):	**$ 77,672**	$ 68,273	$ 60,357
Pro Forma Earnings Per Share (Note 13):			
Primary	**$3.29**	$3.07	$2.82
Fully diluted	**$3.19**	$2.97	$2.73

See notes to consolidated financial statements



TACCs, minicomputer controlled money holding and dispensing devices, have been installed in **7-ELEVEN** *stores nationwide.*

CONSOLIDATED BALANCE SHEETS

THE SOUTHLAND CORPORATION AND SUBSIDIARIES

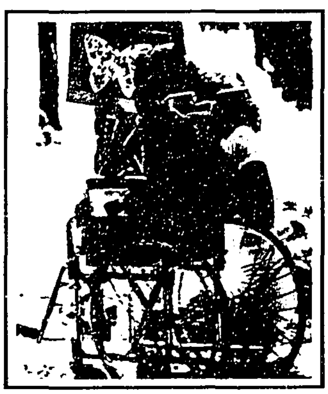
ASSETS

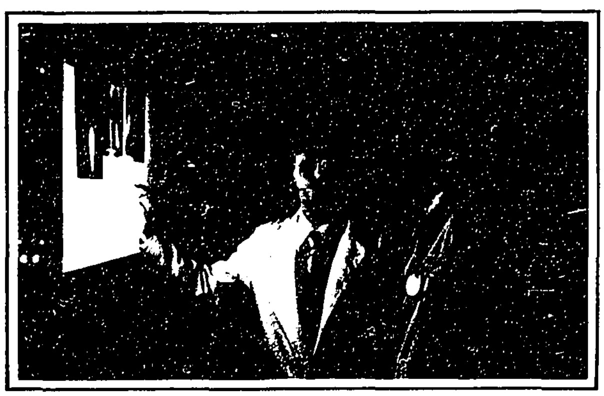
	December 31 1980	December 31 (Dollars in thousands) 1979
Current Assets:		
Cash and short-term investments (Note 2)	$ 149,602	$ 79,927
Accounts and notes receivable (Note 3)	99,828	87,954
Inventories (Note 4)	213,445	200,794
Deposits and prepaid expenses (Note 8)	36,121	32,008
Investment in properties	77,900	67,500
Total Current Assets	576,896	468,183
Investments in Affiliates (Note 1)	31,777	28,847
Property, Plant, and Equipment (Note 5)	647,137	630,026
Capital Leases (Note 11)	208,170	208,770
Other Assets	31,405	31,749
	$1,495,385	$1,367,575

LIABILITIES AND SHAREHOLDERS' EQUITY

	1980	1979
Current Liabilities:		
Accounts payable and accrued expenses (Note 6)	$ 337,129	$ 275,513
Income taxes	23,178	6,626
Long-term debt due within one year (Note 7)	4,260	4,025
Capital lease obligations due within one year (Note 11)	20,573	20,362
Total Current Liabilities	385,140	306,526
Deferred Credits (Note 8)	18,748	10,294
Long-Term Debt (Note 7)	312,535	326,893
Capital Lease Obligations (Note 11)	224,753	226,257
Commitments for Operating Leases (Note 11)		
Shareholders' Equity (Notes 7 and 9):		
Common stock, $.01 par value, authorized 40,000,000 shares, issued and outstanding 23,643,903 and 22,935,504 shares	236	229
Additional capital	334,311	319,067
Retained earnings	219,662	178,309
	554,209	497,605
	$1,495,385	$1,367,575

See notes to consolidated financial statements.





CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

THE SOUTHLAND CORPORATION AND SUBSIDIARIES

	Year ended December 31		
	(Dollars in thousands)		
	1980	1979	1978
Common Stock:			
Balance, beginning of year	**$ 229**	$ 202	$ 195
Sale of stock	*	20	—
3% Stock dividend	**7**	7	6
Key employees incentive plan	*	*	*
Conversion of notes	—	*	—
Acquisition	—	*	—
Employee stock options	—	*	1
Balance, end of year	**236**	229	202
Additional Capital:			
Balance, beginning of year	**319,067**	242,340	223,499
Sale of stock	—	55,908	—
3% Stock dividend	**14,727**	19,255	17,666
Key employees incentive plan	**517**	788	471
Conversion of notes	—	270	—
Acquisition	—	476	—
Employee stock options	—	30	704
Balance, end of year	**334,311**	319,067	242,340
Retained Earnings:			
Balance, beginning of year	**178,309**	131,925	106,258
Net earnings for the year	**77,672**	83,141	57,097
Cash dividends	**(21,511)**	(17,382)	(13,628)
3% Stock dividend	**(14,734)**	(19,261)	(17,672)
Cash paid in lieu of fractional shares on stock dividend	**(74)**	(114)	(130)
Balance, end of year	**219,662**	178,309	131,925
Total Shareholders' Equity	**$554,209**	$497,605	$374,467

*Amount rounds to zero.
See notes to consolidated financial statements.

Southland and other members of the National Association of Convenience Stores raised $4.5 million for the Muscular Dystrophy Association.

Consolidated Statements of Changes in Financial Position

THE SOUTHLAND CORPORATION AND SUBSIDIARIES

	Year ended December 31 (Dollars in thousands) 1980	1979	1978
Sources of Working Capital:			
From operations:			
Net earnings	**$ 77,672**	$ 83,141	$ 57,097
Expenses charged to earnings which did not require outlay of working capital:			
Depreciation and amortization	**67,529**	56,501	46,840
Amortization of capital leases	**22,565**	22,610	20,884
Deferred income taxes and other credits	**8,454**	(12,949)	6,553
Working capital provided from operations	**176,220**	149,303	131,374
Long-term debt	**2,306**	78,859	70,659
Capital lease obligations	**24,011**	30,476	41,908
Retirements and sales of property, plant, and equipment	**29,870**	16,032	13,555
Retirements and sales of capital leases	**2,046**	3,526	1,397
Other	**344**	(1,971)	(528)
Issuance of common stock:			
Sale of stock	**—**	55,928	—
Key employees incentive plan	**517**	788	471
Conversion of notes	**—**	270	—
Acquisition	**—**	476	—
Employee stock options	**—**	30	705
	235,314	333,717	259,541
Uses of Working Capital:			
Property, plant, and equipment	**114,510**	217,087	141,438
Capital leases	**24,011**	30,476	41,908
Reduction of capital lease obligations	**25,515**	22,261	23,112
Payment of long-term debt	**16,664**	13,268	4,718
Cash dividends	**21,511**	17,382	13,628
Net noncurrent assets of businesses purchased for stock and cash	**—**	6,132	29,181
Retirement of long-term debt upon conversion of notes	**—**	270	—
Investments in affiliates	**2,930**	1,483	647
Cash paid in lieu of fractional shares on stock dividend	**74**	114	130
	205,215	308,473	254,762
Increase in working capital	**$ 30,099**	$ 25,244	$ 4,779
Changes in Working Capital:			
Increases (decreases) in current assets:			
Cash and short-term investments	**$ 69,675**	$ (2,819)	$ 16,842
Accounts and notes receivable	**11,874**	22,431	3,355
Inventories	**12,651**	29,315	34,622
Deposits and prepaid expenses	**4,113**	7,230	5,341
Investment in properties	**10,400**	11,643	2,538
	108,713	67,800	62,698
Increases (decreases) in current liabilities:			
Accounts payable and accrued expenses	**61,616**	63,592	43,027
Income taxes	**16,552**	(12,011)	3,156
Long-term debt due within one year	**235**	(9,230)	9,113
Capital lease obligations due within one year	**211**	205	2,623
	78,614	42,556	57,919
Increase in working capital	**$ 30,099**	$ 25,244	$ 4,779

See notes to consolidated financial statements.

Principles of Consolidation

The financial statements include the accounts of domestic and Canadian subsidiaries, all of which are wholly-owned. Intercompany transactions are eliminated.

Investments in affiliates are accounted for by the equity method. Accordingly, such investments are shown at cost to the Company plus equity in undistributed earnings since acquisition. Investments in affiliates consists primarily of amounts invested in a wholly-owned United Kingdom subsidiary engaged in the operation of retail stores. Equity in earnings of affiliates is included in other income and, as to foreign affiliates, is recorded net of amortization of the intangibles which arose on the acquisition (straight-line over 40 years), foreign income taxes, and a provision for United States federal income taxes. At December 31, 1980, the Company's investments in affiliates exceeded its equity in net assets by $19,111,000.

The classifications in use for the current year have been applied to the statements for 1979 and 1978.

Revenues

Net sales are comprised of sales of products and merchandise, including sales by stores operated by franchisees.

Sales by stores operated under domestic and foreign area license agreements are not included. All fees or royalties arising from such agreements are included in other income. Initial fees are recognized as the services required under the agreements are performed.

Inventories

Inventories are stated at the lower of cost or market, which, as to merchandise in stores, is determined by the retail inventory method. In 1978, cost was determined using the first-in, first-out (FIFO) method. Beginning in 1979, the Company changed to the last-in, first-out (LIFO) method of determining the cost of substantially all inventories of the Stores Group. The cost of all other inventories is determined using the FIFO method.

Ice cream and frozen novelties are favorites with young **7-ELEVEN** *fans.*

Cost elements of inventories include the purchase price of merchandise inventories and raw materials, *and transportation, labor, and overhead applicable to* manufacturing, processing, and distribution. Raw materials are not a significant part of inventories.

Investment in Properties

Investment in properties includes land, buildings, and equipment either to be sold for cash and leased back or to be mortgaged, as well as closed stores held for sale. The Company expects that cash will be realized for these properties within a twelve-month period. *Working capital is used in the acquisition,* construction, and carrying of these assets.

Depreciation and Amortization

Depreciation of plant and equipment and amortization of capital leases is based upon the estimated useful lives of these assets using the straight-line method. Amortization of improvements to leased properties is based upon the remaining terms of the leases or the estimated useful lives of such improvements, whichever is shorter.

Income Taxes and Investment Tax Credits

In 1978 and prior years, investment tax credits relating to leased and purchased equipment were deferred and taken into income ratably over either the terms of the leases or the useful lives of the assets. Beginning in 1979, investment tax credits are recorded as a reduction of income taxes in the year the related assets are placed in service.

The tax effects of differences in timing between financial and tax reporting have been provided for in the financial statements. The resulting deferred taxes arise principally from the use of accelerated depreciation methods for tax purposes, while leases and certain interest expense are *capitalized and insurance claims are accrued for* financial statement purposes.

Leases

Capital leases are recorded at the lower of the discounted present value of future lease payments or the fair value of the property. Provision is made for the present value of estimated losses anticipated to be incurred due to the payment of rentals on closed stores, net of expected sublease rentals.

2 Cash and Short-term Investments

Cash and short-term investments include certificates of deposit, commercial paper, and U.S. Treasury Notes of $142,185,000 and $77,253,000 at December 31, 1980 and 1979. These short-term investments are stated at cost, which approximates market.

3 Accounts and Notes Receivable (000's omitted)

	1980	1979
Trade	**$ 75,354**	$ 70,597
Franchisee	**30,052**	21,744
	105,406	92,341
Allowance for doubtful accounts	**(5,578)**	(4,387)
	$ 99,828	$ 87,954

4 Inventories

In 1979, the Company changed from the FIFO to the LIFO method of determining the cost of substantially all inventories of the Stores Group. The effect of this change was to reduce net earnings for 1979 by approximately $8,613,000, or $.39 per primary share. This change was made because management believes the LIFO method more realistically reflects earnings during inflationary periods by matching the most recent inventory acquisition costs against current sales. The Company is not permitted to restate prior years' reported earnings for, and it is not possible to determine the cumulative effect on retained earnings of, the change to LIFO. Therefore, the 1978 financial statements are not fully comparable with those of 1980 and 1979.

At December 31, 1980 and 1979, inventories stated on the LIFO basis were approximately $155,737,000 and $150,426,000, which is less than replacement cost by approximately $39,803,000 and $21,160,000.

Earnings on a FIFO basis for 1980 and 1979, presented as supplementary information in order to provide a basis for comparison with companies using the FIFO method, would have been greater than reported earnings by approximately $9,089,000 and $8,613,000, or $.38 and $.39 per primary share.

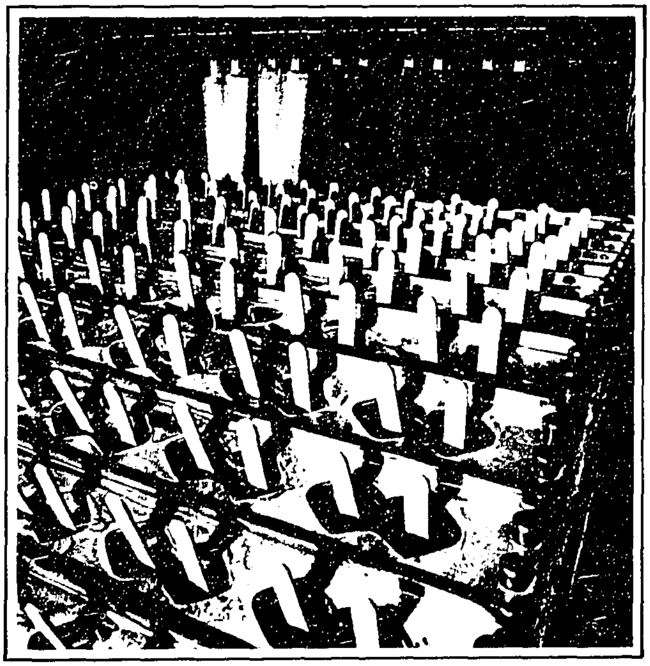
(000's omitted)	1980	1979
COST:		
Land	$ 88,496	$ 99,670
Buildings and leaseholds	369,020	307,827
Machinery and equipment	403,831	365,756
Vehicles	50,859	69,108
Construction in process	20,305	38,752
	932,511	881,113
Accumulated depreciation and amortization	(285,374)	(251,087)
	$647,137	$630,026

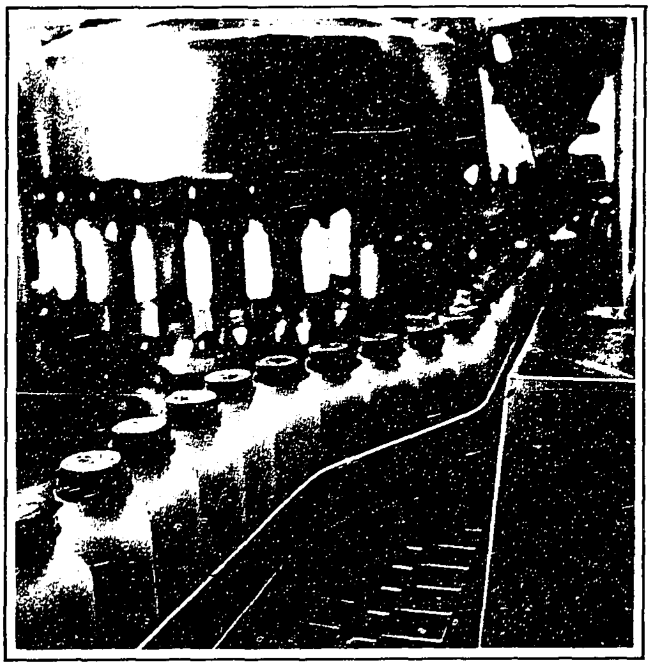
Approximately 17% of the carrying amount of property, plant, and equipment at December 31, 1980, was mortgaged. Lenders to certain wholly-owned real estate subsidiaries hold pledges of the shares of those subsidiaries as additional collateral.

Interest incurred to finance the construction or development of properties, which beginning in 1979 has been added to the cost of the asset in accordance with Statement of Financial Accounting Standards No. 34, was $3,539,000 in 1980 and $4,388,000 in 1979 The effect of the change in 1979 was to increase earnings by $2,010,000, or $.09 per primary share.

	1980	1979
Trade accounts payable	$208,708	$154,034
Accrued payroll	20,012	20,689
Accrued taxes	33,876	29,284
Accrued interest	8,604	8,593
Other accounts payable and accrued expenses	65,929	62,913
	$337,129	$275,513

Production capacity for novelties, fruit juices, and juice-base drinks has been expanded to meet customer demand.





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(000's omitted)	Amount out-standing	Due within one year	Balance included in long-term debt
5.75%-10.50% Real estate, equipment, and other notes (mature 1981 to 2007)	$112,472	$4,260	$108,212
5% Convertible subordinated debentures due 1987	30,000	—	30,000
8⅜% Sinking fund debentures due 2002	50,000	—	50,000
9⅜% Sinking fund debentures due 2003	49,878	—	49,878
9½% Sinking fund debentures due 2004	74,445	—	74,445
	$316,795	$4,260	$312,535

The 5% convertible debentures may, at the option of the holders, be converted at any time prior to maturity into the Company's common stock. The present conversion ratio is 30.13 shares for each $1,000 of principal. At December 31, 1980, there were 903,900 shares reserved for the conversion of these debentures.

The 8⅜% debentures require annual sinking fund payments beginning February 15, 1983, in the amount of $2,500,000, which, at the option of the Company, may be increased each year by an additional amount not exceeding $2,500,000.

The 9⅜% debentures require annual sinking fund payments beginning December 15, 1984, in the amount of $2,500,000, which, at the option of the Company, may be increased each year by an additional amount not exceeding $2,500,000.

The 9½% debentures require annual sinking fund payments beginning August 15, 1985, in the amount of $3,750,000, which, at the option of the Company, may be increased each year by an additional amount not exceeding $5,625,000.

At December 31, 1980, the aggregate amounts of long-term debt maturities were as follows for the years ending December 31: 1981 — $4,260,000; 1982 — $4,293,000; 1983 — $7,005,000; 1984 — $9,568,000; 1985 — $13,641,000.

Certain provisions of the various debentures place restrictions on the payment of cash dividends and the repurchase or redemption of stock by the Company. At December 31, 1980, only $576,000 of the Company's retained earnings was so restricted.

8 DEFERRED CREDITS

Deferred credits include deferred federal income taxes of $17,991,000 and $9,225,000 at December 31, 1980 and 1979. The net current asset portion of deferred income taxes of $10,437,000 and $8,784,000 at December 31, 1980 and 1979, were included in deposits and prepaid expenses.

Options under a nonqualified stock option plan are granted at the fair market value of the shares on date of grant and are exercisable ratably over a ten-year period. The proceeds from shares issued and any applicable tax benefits related to these options are credited to common stock and additional capital. No charges or credits are made to income with regard to options granted under this plan.

Information with respect to the nonqualified stock option plan is as follows:

	Number of shares under option	Option price per share
Outstanding January 1, 1979	238,690	$19.10—$22.65
Granted	2,652	$26.16
Exercised	(1,109)	$19.10—$22.65
Outstanding December 31, 1979	240,233	$19.10—$26.16
Granted	—	—
Exercised	—	—
Outstanding December 31, 1980	240,233	$19.10—$26.16

At December 31, 1980, 89,678 shares were exercisable at prices ranging from $19.10 to $26.16, and an additional 317,019 shares were available for future grant under this plan.

The Dairies Group, a three-year sponsor of the March of Dimes "Mothers March on Birth Defects," will be joined by **7-ELEVEN**, *which will sponsor the first "WalkAmerica."*

At December 31, 1980, 211,645 shares were reserved for issuance pursuant to a key employees incentive plan, of which approximately 30,000 shares will be issued in 1981 In 1980 and 1979, respectively, 23,799 and 32,189 shares were issued under this plan.

The above information has been adjusted for stock dividends.

Effective January 1, 1949, the Company adopted The Southland Corporation Employees' Savings and Profit Sharing Plan (Profit Sharing) for the purpose of providing retirement benefits for eligible employees.

Contributions to the plan are made by both the participants and the Company. The Company contributes approximately 10% of its net earnings before contribution to the plan and federal income taxes. The Company contribution is allocated to the participants on the basis of their individual contribution, years of participation, and age.

Certain of the property and equipment used in the Company's business is leased. Generally, real estate leases are for primary terms of from 14 to 20 years with options to renew for additional periods, and equipment leases are for terms of from 5 to 10 years. The leases do not contain restrictions which have a material effect on the Company's operations.

The composition of capital leases reflected as assets in the consolidated balance sheets is as follows:

(000's omitted)	1980	1979
Buildings	**$277,500**	$260,528
Equipment	**94,854**	102,435
	372,354	362,963
Accumulated amortization	**(164,184)**	(154,193)
	$208,170	$208,770

Capital Lease Obligations

The present value of minimum lease payments for capital lease obligations of $245,326,000 at December 31, 1980, is reflected in the consolidated balance sheets as current and noncurrent capital lease obligations of $20,573,000 and $224,753,000, and represents

the total minimum lease payments less estimated executory costs of $11,925,000 and an amount representing imputed interest of $213,160,000. Future minimum lease payments on these leases total $470,411,000 and are due in: 1981 — $43,359,000; 1982 — $40,469,000; 1983 — $36,912,000; 1984 — $34,797,000; 1985 — $32,784,000; and thereafter — $282,090,000.

The amount representing imputed interest necessary to reduce net minimum lease payments to present value has been calculated generally at the Company's incremental borrowing rate at the inception of each lease. Noncancelable sublease rental income and contingent rental expense are not material and have not been reflected in total minimum lease payments.

Operating Leases

Future minimum lease payments required by operating leases at December 31, 1980, total $468,895,000 and are due in: 1981 — $45,148,000; 1982 — $42,460,000; 1983 — $40,250,000; 1984 — $37,849,000; 1985 — $36,176,000; and thereafter — $267,012,000. Future rental income under noncancelable subleases is not material.

Lease expense on operating leases in the years ended December 31, 1980, 1979, and 1978, totaled $47,034,000, $36,961,000 and $28,617,000. Contingent rental expense is not material.

Leases With Profit Sharing

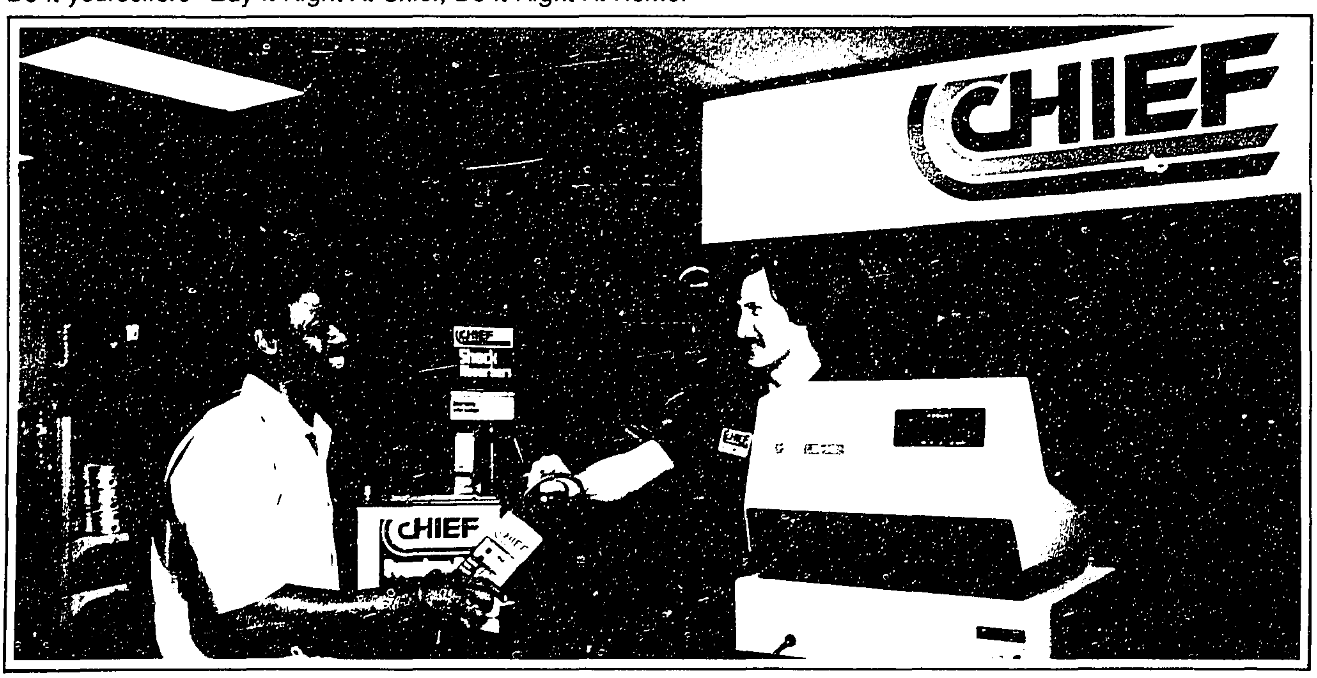
During 1980, 1979, and 1978, Profit Sharing purchased 73, 125, and 118 7-Eleven stores from the Company for $18,769,000, $26,606,000, and $20,784,000, the Company's direct and indirect cost. The stores were simultaneously leased to the Company at annual rentals approximating market rates. At December 31, 1980, Profit Sharing owned 1,017 stores leased to the Company under capital leases, which are included in property, plant, and equipment at a net amortized amount of $52,237,000, and 179 stores leased to the Company under operating leases.

12 INCOME TAXES

Provisions for income taxes for the years ended December 31 are as follows (000's omitted):

	1980	1979	1978
Federal:			
Current	**$41,478**	$39,048	$44,564
Deferred	**7,113**	241	5,121
State	**7,249**	6,793	5,926
	$55,840	$46,082	$55,611

Do-it-yourselfers "Buy It Right At Chief, Do It Right At Home."



Reconciliations of the Company's effective tax rate and the federal statutory rate for the years ended December 31 are as follows:

	1980	1979	1978
Statutory rate	**46.0%**	46.0%	48.0%
Investment tax credits	**(5.1)**	(8.3)	(1.0)
State income taxes net of federal income tax benefit	**2.9**	3.2	2.7
Other	**(2.0)**	(.3)	(.4)
	41.8%	40.6%	49.3%

Deferred income tax expenses for the years ended December 31 are as follows (000's omitted):

	1980	1979	1978
Use of accelerated depreciation for tax purposes	**$5,141**	$4,014	$2,436
Deferral of investment credits	**—**	—	5,551
Other items	**1,972**	(3,773)	(2.866)
	$7,113	$ 241	$5,121

In 1979, the Company changed from the deferral to the flow-through method of accounting for investment tax credits. This change makes the Company's method of accounting for investment tax credits comparable with most other retailers and eliminates the future effects of continuing inflation on these credits. The effect of this change was to: (a) increase 1979 net earnings for credits earned during 1979 by approximately $6,603,000 or $.30 per primary share, which reduced income taxes in the 1979 consolidated statement of earnings; (b) increase 1979 net earnings for net credits previously deferred, included in the balance sheet as deferred credits at December 31, 1978, by $15,665,000 or $.70 per primary share, which has been retroactively reflected in the 1979 first quarter results as the cumulative effect of accounting change for investment tax credits; and (c) decrease 1979 net earnings for the additional contribution to Profit Sharing resulting from (b) above, net of tax benefit, by approximately $797,000 or $.04 per primary share, which has been retroactively reflected in the 1979 first quarter results. Cash flow was not affected by (a) and (b) above.

*Fashionable sunglasses are popular with **7-ELEVEN** shoppers.*

13 EARNINGS PER SHARE

Primary earnings per share are based on the average number of shares outstanding during each year after giving effect to subsequent stock dividends.

Earnings per share assuming full dilution are based on (a) shares used in computing primary earnings per share, (b) shares issuable upon conversion of convertible debentures at the stated conversion rates (related interest requirements eliminated), (c) shares issuable on the exercise of stock options after reduction for shares assumed to have been purchased with the proceeds, and (d) average shares issuable under the key employees incentive plan.

Freshly brewed coffee is the perfect addition to an early morning breakfast of "Sausage and Egg" or "Egg Hamlette."

14 QUARTERLY FINANCIAL DATA (UNAUDITED)

Data reflected for the 1978 quarterly periods is not fully comparable to the 1980 and 1979 quarterly data as a result of the change to the LIFO inventory method, the capitalization of certain interest, and the change to the flow-througn method of accounting for investment tax credits, all beginning in 1979.

The classification of items in determining gross profit conforms to that used in the consolidated statements of earnings. Summarized quarterly financial data is as follows (000's omitted, except per share data):

	First quarter	Second quarter	Third quarter	Fourth quarter	Year
1980:					
Net sales	**$1,013,647**	**$1,201,176**	**$1,297,577**	**$1,246,256**	**$4,758,656**
Gross profit	**221,141**	**276,743**	**303,430**	**267,830**	**1,069,144**
Net earnings	**6,079**	**24,610**	**27,034**	**19,949**	**77,672**
Earnings per share:					
Primary	**.26**	**1.04**	**1.14**	**.85**	**3.29**
Fully diluted	**.26**	**1.00**	**1.11**	**.82**	**3.19**
1979:					
Net sales	807,372	956,301	1,053,851	1,038,698	3,856,222
Gross profit	185,074	243,723	261,349	235,883	926,029
Earnings before cumulative effect of accounting change	5,971	23,494	24,535	13,476	67,476
Net earnings	21,636	23,494	24,535	13,476	83,141
Pro forma earnings	6,768	23,494	24,535	13,476	68,273
Earnings per share:					
Before cumulative effect of accounting change:					
Primary	.28	1.09	1.10	.56	3.03
Fully diluted	.28	1.05	1.06	.54	2.93
Net earnings:					
Primary	1.01	1.09	1.09	.54	3.73
Fully diluted	.97	1.06	1.05	.53	3.61
Pro forma earnings:					
Primary	.32	1.09	1.10	.56	3.07
Fully diluted	.31	1.06	1.06	.54	2.97
1978:					
Net sales	646,083	774,465	844,521	811,463	3,076,532
Gross profit	154,666	197,923	211,456	196,199	760,244
Net earnings	7,061	18,238	19,114	12,684	57,097
Pro forma earnings	7,461	19,071	19,992	13,833	60,357
Earnings per share:					
Net earnings:					
Primary	.33	.85	.89	.60	2.67
Fully diluted	.32	.83	.86	.57	2.58
Pro forma earnings:					
Primary	.35	.89	.93	.65	2.82
Fully diluted	.34	.86	.90	.63	2.73

15

The Stores Group includes all convenience and grocery stores in the United States and Canada, as well as those activities (such as self-serve gasoline, distribution, and food preparation) which derive the majority of their revenues and operating profits from support of these stores. The Dairies Group includes milk and ice cream processing and distribution, salad-making, and packaging. The Special Operations Group includes the ice, chemical, Tidel, and Chief Auto Parts divisions. Corporate items reflect income, expenses, and assets not allocable to segments.

Intersegment sales are accounted for on a cost-plus-markup basis. Expenses directly identifiable with a segment and certain allocated expenses are used to determine operating profit by segment.

The 1978 information is shown on a pro forma basis to reflect retroactively the accounting change for investment tax credits (000's omitted):

	1980	1979	1978
Revenues:			
Stores Group	**$4,307,876**	$3,463,614	$2,791,035
Dairies Group	**534,699**	473,367	388,956
Special Operations Group	**122,645**	113,919	56,161
Corporate	**8,864**	6,968	4,801
	4,974,084	4,057,868	3,240,953
Intersegment revenues:			
Dairies Group	**(175,251)**	(158,622)	(135,563)
Special Operations Group	**(16,228)**	(23,187)	(15,296)
Consolidated revenues	**$4,782,605**	$3,876,059	$3,090,094
Operating profits:			
Stores Group	**$ 176,441**	$ 145,831	$ 141,208
Dairies Group	**14,457**	10,326	6,433
Special Operations Group	**(2,791)**	7,579	5,668
Consolidated operating profits	**188,107**	163,736	153,309
Interest expense	**(46,337)**	(40,236)	(35,129)
Corporate expense — net	**(8,258)**	(9,942)	(7,641)
Consolidated earnings before income taxes	**$ 133,512**	$ 113,558	$ 110,539
Identifiable assets (including capital leases) at December 31:			
Stores Group	**$1,182,186**	$1,045,898	$ 863,228
Dairies Group	**116,051**	112,654	100,265
Special Operations Group	**95,617**	108,744	80,206
Corporate	**101,531**	100,079	90,777
Total identifiable assets	**$1,495,385**	$1,367,575	$1,134,476
Capital expenditures (excluding capital leases):			
Stores Group	**$ 92,112**	$ 180,950	$ 110,508
Dairies Group	**9,656**	11,126	9,710
Special Operations Group	**10,712**	20,269	23,054
Corporate	**2,030**	10,659	9,116
	$ 114,510	$ 223,004	$ 152,388
Depreciation and amortization expense:			
Stores Group	**$ 75,117**	$ 60,822	$ 53,572
Dairies Group	**7,474**	7,060	5,737
Special Operations Group	**4,488**	8,571	7,961
Corporate	**3,015**	2,658	2,864
	$ 90,094	$ 79,111	$ 70,134

Management's Responsibility For Financial Reporting

The consolidated financial statements of The Southland Corporation and subsidiaries, as well as other financial information contained in this report, were prepared by management, which is responsible for their integrity and objectivity.

The Company's financial position and results of operations are presented in conformity with generally accepted accounting principles and, where appropriate, reflect estimates based on judgments of management. The Company has designed and implemented accounting and reporting systems and controls to provide reasonable assurance that transactions are accurately reflected on the books and records, assets are protected, established policies and procedures are followed, and the Company's financial position and results of operations are presented fairly. Accounting and reporting controls are monitored through an extensive program of internal audits by a professional staff of Company auditors which coordinates its activities with the Company's independent certified public accountants.

Touche Ross & Co. is engaged to examine the consolidated financial statements and issue their report thereon. Their examination is conducted in accordance with generally accepted auditing standards, including a review of internal controls and such tests of the accounting records as they consider necessary.

The Board of Directors, assisted by its Audit Committee of three non-employee directors, is responsible for assuring that management fulfills its responsibilities in the preparation of the financial statements and for recommending to shareholders the engagement of the independent certified public accountants, with whom the Committee reviews the scope of the audit and the accounting principles to be applied in financial reporting. The Committee meets as necessary, but at least three times a year. Touche Ross & Co. and the Company's internal auditors have direct access to the Committee — with or without the presence of management — to discuss any appropriate matter.

Clark J. Matthews, II

Clark J. Matthews, II
Executive Vice President
and Chief Financial Officer

Touche Ross & Co.

2001 Bryan Tower, Suite 2400
Dallas, Texas 75201

Board of Directors and Shareholders
The Southland Corporation
Dallas, Texas

We have examined the consolidated balance sheets of The Southland Corporation and subsidiaries as of December 31, 1980 and 1979, and the related consolidated statements of earnings, shareholders' equity, and changes in financial position for each of the three years in the period ended December 31, 1980. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements referred to above present fairly the financial position of The Southland Corporation and subsidiaries at December 31, 1980 and 1979, and the results of their operations and the changes in their financial position for each of the three years in the period ended December 31, 1980, in conformity with generally accepted accounting principles consistently applied during the years except for 1978 as to the 1979 accounting changes, with which we concur, described in Notes 4, 5, and 12 to the consolidated financial statements.

Touche Ross & Co.

Certified Public Accountants

Dallas, Texas
February 16, 1981

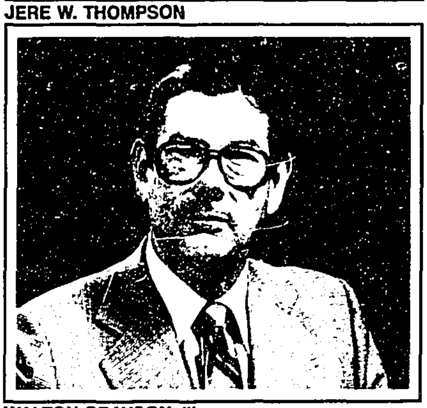
BOARD OF DIRECTORS

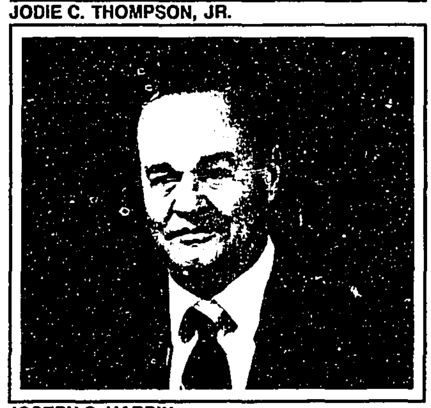

JOHN P. THOMPSON


JERE W. THOMPSON

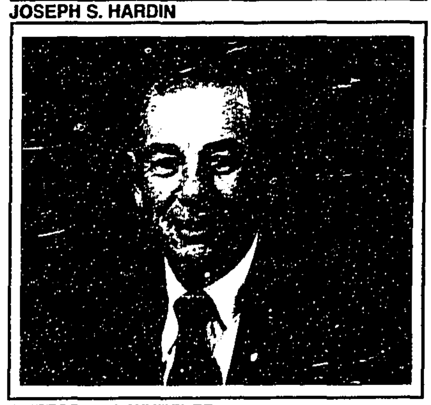

JODIE C. THOMPSON, JR.

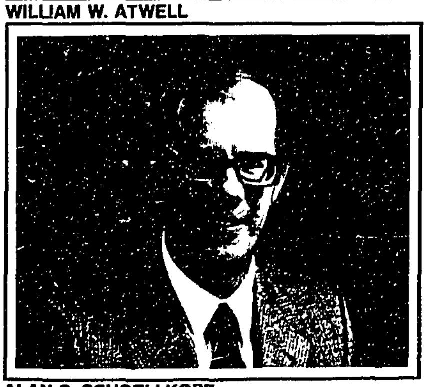

J. Y. BALLARD

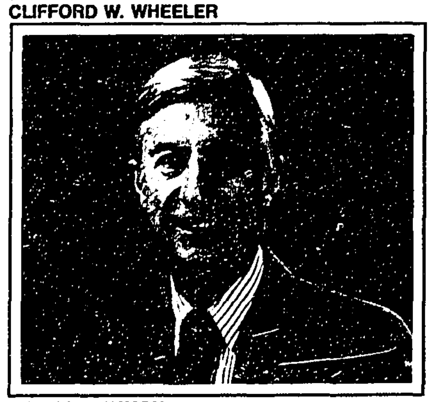

WALTON GRAYSON, III


JOSEPH S. HARDIN


WILLIAM W. ATWELL


CLIFFORD W. WHEELER


ALAN C. SCHOELLKOPF


MARK L. LEMMON, M.D.

JOHN P. THOMPSON (1948)
Chairman of the Board and
Chief Executive Officer

JERE W. THOMPSON (1961)
President

WILLIAM W. ATWELL* (1976)
Investments

J. Y. BALLARD (1937)
Consulting Engineer

WALTON GRAYSON, III (1962)
Executive Vice President

JOSEPH S. HARDIN (1977)
Executive Vice President

MARK L. LEMMON, M.D.* (1977)
Plastic and Reconstructive Surgeon

ALAN C. SCHOELLKOPF* (1979)
Vice President
Rotan Mosle Inc.

JODIE C. THOMPSON, JR. (1979)
Executive Vice President

CLIFFORD W. WHEELER (1960)
Retired Vice President

(Date indicates year elected)
*Members of Audit Committee

SENIOR OFFICERS

JOHN P. THOMPSON 55
Chairman of the Board and
Chief Executive Officer

JERE W. THOMPSON 48
President

WALTON GRAYSON, III 52
Executive Vice President,
Administration and Services

JOSEPH S. HARDIN* 65
Executive Vice President,
Planning & Special
Operations Group

JODIE C. THOMPSON, JR. 40
Executive Vice President,
Retail

* Retired January 2, 1981

CLARK J. MATTHEWS, II 44
Executive Vice President
and Chief Financial Officer

S. R. DOLE 43
Senior Vice President,
Stores Group

JAMES W. PARKER 42
Senior Vice President,
Manufacturing and Distribution

OPERATING OFFICERS

C. O. BESHEARS 54
Vice President,
Dairies Group

DONALD L. BURNSIDE 45
Vice President,
Western Stores Region

ADRIAN O. EVANS 44
Vice President,
Central Stores Region

JOSEPH S. HARDIN, JR. 35
Vice President,
Distribution

FRANK L. KITCHEN 44
Vice President,
Eastern Stores Region

JAMES R. LYNCH 43
Vice President,
Southern Stores Region

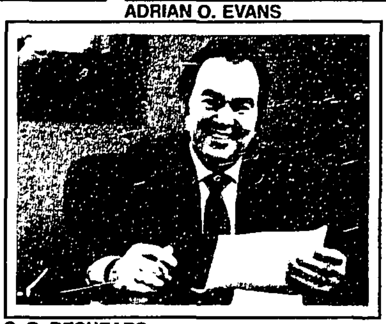
RICHARD A. TURCHI 46
Vice President,
International

BILL M. WOOTTON 42
Vice President,
Southwestern Stores Region

JAMES R. LYNCH FRANK L. KITCHEN BILL M. WOOTTON

JOSEPH S. HARDIN, JR.

ADRIAN O. EVANS DONALD L. BURNSIDE



C. O. BESHEARS

RICHARD A. TURCHI

Staff Officers

RULON R. BROUGH 57
Vice President,
Management Information Services

M. T. COCHRAN, JR. 62
Vice President

EUGENE A. DEFALCO 41
Vice President,
Marketing-Retail

VAUGHN R. HEADY 60
Vice President

BEN M. HOLLAND 48
Vice President,
Development

P. EUGENE PENDER 49
Vice President
and Controller

L. MARK RIGG 47
Vice President,
Human Resources

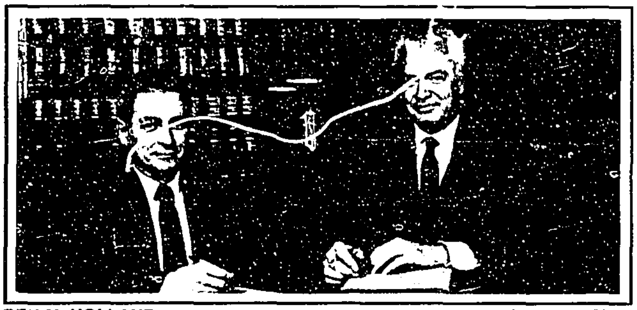
JOHN H. RODGERS 36
Vice President and
General Counsel

W. K. RUPPENKAMP 61
Vice President,
Financial Relations

FORREST STOUT 62
Vice President

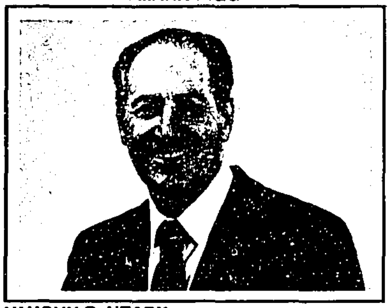
FRANK J. GANGI 39
Treasurer

R G SMITH 57
Secretary

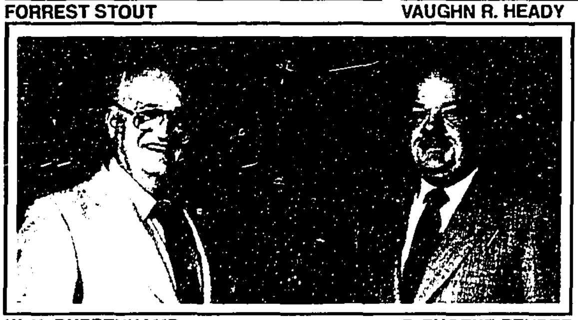


BEN M. HOLLAND L. MARK RIGG

FORREST STOUT



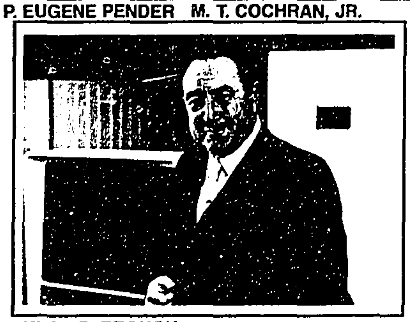
VAUGHN R. HEADY



W. K. RUPPENKAMP P. EUGENE PENDER

M. T. COCHRAN, JR.

R G SMITH



RULON R. BROUGH

JOHN H. RODGERS FRANK J. GANGI

SECURITIES LISTED:

Common Stock
8⅜% Sinking Fund Debentures
9⅜% Sinking Fund Debentures
9½% Sinking Fund Debentures
New York Stock Exchange

5% Convertible Subordinated Debentures
Luxembourg Stock Exchange

TRANSFER AGENT AND REGISTRAR:

Common Stock
First National Bank in Dallas

8⅜% Sinking Fund Debentures
Mercantile National Bank at Dallas

9⅜% Sinking Fund Debentures
9½% Sinking Fund Debentures
First International Bank in Houston, N.A.

AUDITORS:

Touche Ross & Co.
2001 Bryan Tower, Suite 2400
Dallas, Texas 75201

ANNUAL MEETING:

The Annual Meeting of the Company will be held at 10 a.m. Wednesday, April 22, 1981, in the North Wing Auditorium of the Corporate Office, 2828 North Haskell Avenue, Dallas, Texas. All shareholders are cordially invited to attend.

FORM 10-K:

Shareholders may obtain a copy, exclusive of exhibits, of the Form 10-K Annual Report for the year ended December 31, 1980, filed with the Securities and Exchange Commission, by writing to the Financial Relations Department at the Company's mailing address.

AUTOMATIC STOCK PURCHASE PLAN:

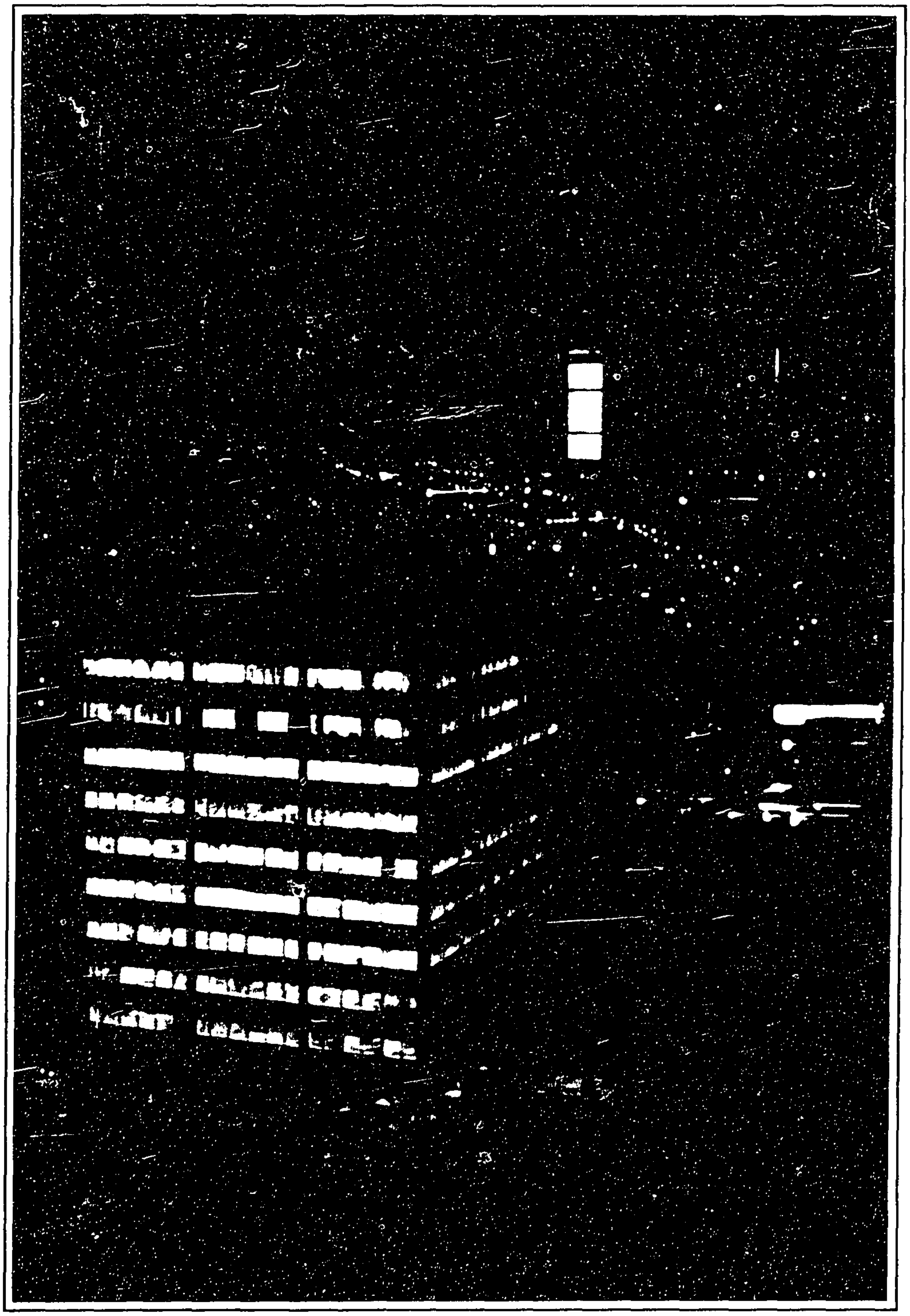
This plan provides a simple, convenient, and inexpensive way for shareholders to invest cash dividends and additional cash deposits in Southland shares. For further information, write the Financial Relations Department at the Company's mailing address.

MAILING ADDRESS:

P.O. Box 719, Dallas, Texas 75221

TELEPHONE:

(214) 828-7011



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THE SOUTHLAND CORPORATION
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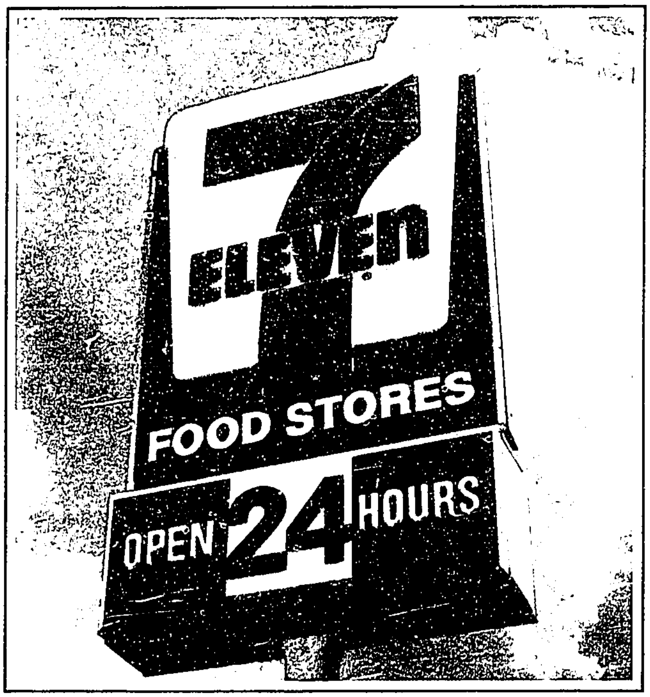

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